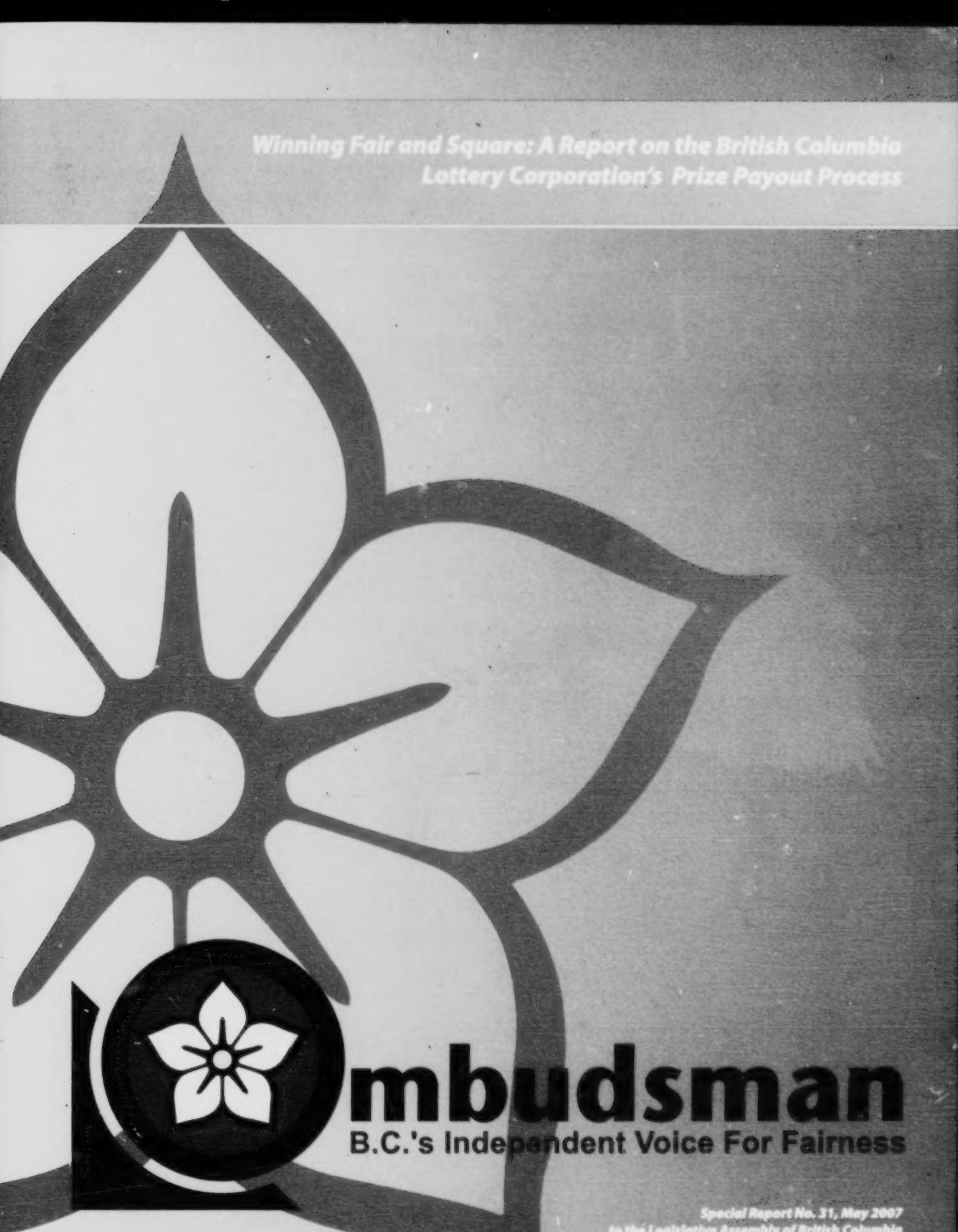
Winning Fair and Square: A Report on the British Columbia Lottery Corporation's Prize Payout Process



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B.C.'s Independent Voice For Fairness

Special Report No. 31, May 2007

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Ombudsman

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In the fall of 2006, serious questions were asked by the media and the public about whether the British Columbia Lottery Corporation's (BCLC) prize payout procedures ensured that the rightful owner of a winning ticket was paid the correct prize. The people who handled players' winning tickets, BCLC retailers and BCLC retailer employees, appeared to be winning major prizes at a higher rate than other players in the province. The concern expressed was that some of those winning tickets might rightfully belong to ordinary players.

In December 2006, BCLC and its government regulator the Gaming Policy and Enforcement Branch (GPEB) issued statements reassuring the public that the security procedures in place to protect prize winners ensured this was not a serious concern.

BCLC is a provincial corporation that falls within the jurisdiction of the British Columbia Ombudsman, as does GPEB, which is part of the provincial Ministry of Public Safety and Solicitor General.

The British Columbia Ombudsman's Office was established in 1979 to look into complaints about unfair treatment by government authorities. It is often described as the "office of last resort." The Ombudsman's Office also "generally oversees the administrative actions of government authorities with a view to upholding the democratic principles of openness, transparency and accountability."[1]

As these initial questions about the lottery process in British Columbia did not seem to be adequately answered and as no other agency indicated that it was conducting further investigation, I decided there was a useful role for an independent and impartial Ombudsman investigation. This report, presented under section 31 of the Ombudsman Act is the result of that investigation.

I believe this report will be useful not only to the public, to BCLC and to the government authorities responsible for regulating and monitoring lottery schemes, but also to other government authorities who may be able to apply some of the lessons learned to their own organizations in a preventative manner.

Both BCLC and the Ministry of Public Safety and Solicitor General have cooperated throughout this investigation. They have accepted the recommendations in this report. I am confident these changes will improve the security and fairness of the prize payout process for the ordinary lottery player in British Columbia.

Kim Carter
Ombudsman
Province of British Columbia

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[1] Report of Special Committee to Appoint an Ombudsman, Legislative Assembly of British Columbia, Second Session, Thirty-Eighth Parliament, April 26, 2006, page 1

> We also believe the corporation must exude integrity in all it does because of the very nature of our business. Without fairness, strict accountability and transparency, we would not be able to earn and maintain the confidence of those adults who choose to play our product or of the public in general.
>
> British Columbia Lottery Corporation Chairman John McLernon, December 6, 2006 before the Select Standing Committee on Crown Corporations.

The British Columbia Lottery Corporation (BCLC) is big business. The business is legal gaming in British Columbia and the biggest "winner" since 1985 has been consecutive provincial governments. In fiscal year 2005/2006 BCLC reported total revenues of $2.26 billion and a net income of $922.7 million. It gave $914.4 million to the provincial government and paid out $641.5 million in prizes. Although most of these revenues came from the operation of casinos, nearly 40 per cent came from the operation of lotteries.[2]

Far more people buy lottery tickets than participate in any other form of legal gaming in British Columbia. One estimate puts it at eight out of every ten adults in British Columbia.[3] In 2005/2006 more than 96 per cent of winning lottery tickets won prizes of $3,000 or less. Approximately three per cent won prizes between $3,001 and $9,999 and far less than one per cent (0.001 per cent) won $10,000 or more. Those major wins, $10,000 or more, accounted for less than 20 per cent of the prize money. More than 80 per cent of the prize money, about $425 million, was paid out to people whose tickets won less than $10,000.

Historically gambling has often been a source of concern because of its potential for exploitation of the player. Until 1969 most gaming was illegal in Canada. In 1969, the *Criminal Code* was changed to allow limited legal exceptions to this general prohibition. These included lottery schemes (lottery games[4] and scratch and win tickets) run by provincial governments. BCLC has run lottery schemes in British Columbia as an agent of the provincial government for more than twenty years. The provincial government also controls and regulates BCLC through legislation, regulations and directives. It has a branch of the Ministry of Public Safety and Solicitor General, the Gaming Policy and Enforcement Branch (GPEB), whose job is to make policy to ensure gaming is fair, audit for compliance, and investigate complaints about gaming in British Columbia including the lottery schemes run by BCLC.

BCLC uses a series of retail outlets to sell its lottery products. In some cases, these are stand alone kiosks that only sell lottery products. Many outlets, however, are retailers – convenience stores, gas stations, grocery stores, pharmacies – who mostly sell other products but also sell lottery products. Finally, some are described as hospitality outlets – generally lounges and bars. In every case BCLC has a contractual agreement with the retailer that requires the retailer to follow all the rules that BCLC imposes. If the retailer does not do this then he or she risks losing the contract to sell lottery products. While BCLC makes it clear that it does not consider BCLC retailers its agents, it is equally clear that BCLC controls their actions through its contractual agreement. In communities across the province, these BCLC retailers and BCLC retailer employees are the "face and hands" of the lottery system.

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[2] See BCLC Annual Report 2005/2006 page 23.
[3] See BCLC Annual Report 2005/2006 page 12.
[4] See Appendix A, Glossary of Lottery Terms.

Executive Summary

BCLC itself consistently identifies integrity as something that is indispensable to its operations. Integrity is defined as both the soundness of a structure, as well as the quality of honesty. Both of those definitions play a critical role throughout this report, since it is the "structural soundness" of the procedures that BCLC has in place to ensure the honesty of the prize payout system that we have examined.

In the fall of 2006, questions were asked about the procedures BCLC had in place to ensure that the correct prizes were being paid to the rightful owners of the winning tickets in its games. In particular, the number of major prizes $10,000 and over claimed by BCLC retailers and BCLC retailer employees raised the issue of potential BCLC retailer fraud – that some BCLC retailers and BCLC retailer employees were collecting tickets and keeping prizes that belonged to players.

BCLC responded to these concerns in December 2006 saying that it believed its retailer and retailer employee rate of win for prizes over $10,000 was within statistical norms. More importantly, however, its players could be confident that its system operated with the highest level of integrity and BCLC "simply [would] not pay out a major prize if there was anything irregular about the ticket or the information provided by the claimant." It confirmed that it scrutinized all prize claimants, but especially retailers who claimed prizes. It said that its procedures and its security checks were supported by internal and external audits. It explained that its customer complaints were minimal and that rarely did subsequent investigations establish retailer impropriety; of the 74 consumer complaints received and investigated in a 22 month period, only four were determined to be BCLC retailer or BCLC retailer employee impropriety resulting in terminations.

At the direction of the Minister of Public Safety and Solicitor General, GPEB investigated and reported on BCLC's lottery ticket retail network. In December 2006, it issued its report. That report said that "given the present processes and equipment, an unscrupulous retailer/employee could misrepresent ticket wins/losses and/or exchange tickets."[5] It then went on to affirm that BCLC retailers were trained and that there was a display of the prize amount and audible signal alert for any win. The report stated that BCLC prize claim procedures consisted of a personal interview before any prize payment and that all retailer claims and any claims with apparent irregularity were escalated to BCLC Corporate Security and senior management for review. Perhaps most importantly, the report confirmed that GPEB had reviewed the 74 complaints concerning prize claims BCLC had reported on and was satisfied with BCLC's management of those complaints. GPEB's report said that BCLC investigated all complaints of retailer fraud/error regardless of the amount. Nevertheless it did require some changes to both its own and BCLC's procedures.[6]

It would have been reasonable for a lottery player to believe in December 2006 that despite talk in the media about potential BCLC retailer and BCLC retailer employee fraud, a thorough review had been undertaken by BCLC and GPEB. Although some unscrupulous BCLC retailer or BCLC retailer employee could "misrepresent wins or losses" or "exchange tickets," in fact, there really was not a problem. BCLC had procedures in place to stop the problem from happening and GPEB, the responsible government agency, had reviewed how the procedures were working and was satisfied.

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[5] See Appendix A, Glossary of Lottery Terms.

[6] See Appendix B, GPEB Recommendations and BCLC Responses.

However, that was not the whole story. During our five month investigation, we heard from players and British Columbia Lottery Corporation (BCLC) retailers and BCLC retailer employees. We visited kiosks, retail outlets and hospitality outlets to see how things worked in practice. We visited BCLC offices in Richmond and Kamloops and saw everything from prize payout procedures to the central computer system. We visited BCLC's warehouse and also a firm that produced scratch and win tickets[7] which gave us a good view of the pre-point of sale procedures that were in place. We spoke with the government organization responsible for regulating, monitoring and investigating complaints about BCLC. We spoke with BCLC employees, senior executives and Board members. We reviewed hundreds of files and thousands of documents relating to BCLC's prize payout procedures and related issues. Consequently, we believe that we can accurately express an opinion on BCLC's prize payout procedures.

In conducting our investigation we kept in mind some basic principles and standards. Lottery schemes are a legal exception to an illegal activity. BCLC is an agent for the Government of British Columbia. BCLC must comply with the written directives of the Minister responsible for it and do what he or she requires.

BCLC has chosen how to sell its product and how to pay out its prizes. BCLC controls BCLC retailers through its contractual agreement with them. BCLC has a duty of care to its customers. BCLC "must exude integrity in all it does." BCLC must have reasonable procedures in place to ensure that the trust and confidence of its customers is well placed.

In particular, lottery players should be able to be confident that BCLC has adequate, reasonable and fair procedures in place to ensure that when the customer hands over his or her ticket to BCLC's "face and hands in the community," the BCLC retailer or BCLC retailer employee, he or she will be paid the correct prize. The customer should not have to protect himself or herself against BCLC.

We also believed that, if possible, some straightforward questions should be answered. Were BCLC retailers and BCLC retailer employees winning at a higher rate than ordinary players? If so, why was this? What procedures did BCLC have in place to ensure that a BCLC retailer or BCLC retailer employee could not take advantage of customers who had entrusted them with their ticket? How did BCLC check that the person who cashed a winning ticket was the rightful owner? Were there any complaints about BCLC retailers and BCLC retailer employees taking players' tickets or not paying out the correct prizes? How did BCLC handle them? What did BCLC do if it discovered any complaints about retailer fraud were valid? Did BCLC know about this issue? If so, when did it become aware of the problem and what actions did it take? What did GPEB, the government agency responsible for regulating, monitoring, and investigating BCLC know or do about this issue?

We found, however, that apparently straightforward questions have complex answers.

We looked at the situation as it was immediately before October 2006 and the broadcast of the Fifth Estate program that raised these questions in connection with lottery operations in Ontario. Of course, the lottery schemes in place in British Columbia and prizes that BCLC retailers can pay out have changed over the past 20 years. Before 1991, BCLC retailers could only pay out prizes of $200 or less; from 1991 to 1994 the

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[7] See Appendix A, Glossary of Lottery Terms.

limit was $1,000 and since 1994 it has been $3,000. Equally, the mechanisms available to assist the player in finding out if he or she is a winner as well as the actual procedures followed in paying out prizes have changed. In our investigation, we focussed on the prize payout procedures in place over the past five years.

In order to be fair and accurate, we also looked at what BCLC has done since October 2006 to improve its prize payout procedures.

Our investigation introduced us to the security procedures that BCLC had in place before a ticket was sold to a player, as well as some aspects of its marketing program. We found both of those very useful examples of how effectively BCLC procedures could work when properly structured and monitored.

BCLC's pre-point of sale security procedures, those procedures that apply before a lottery ticket is sold to a player, are segregated, multi-layered, overlapping, carefully monitored, proactive, adaptive and impose stringent consequences for breaches. While the honesty of the employees is no doubt important, strict security procedures are also in place.

BCLC's marketing program is equally comprehensive. It is pervasive throughout the corporation, an integral and important part of its culture. It is incentive based, well-monitored, proactive and adaptive.

We kept these examples in mind as we looked at post-point of sale security procedures, that is the procedures BCLC applied after it had sold a ticket to a player, to ensure the rightful owner of the winning ticket was paid the correct prize.[8]

Our approach was to first look at whether there was sufficient information to determine if the BCLC retailer and BCLC retailer employee rate of win could be assessed as normal. If it could, then one could reasonably conclude that the procedures that ensured the security of prize payouts worked to prevent BCLC retailers and BCLC retailer employees from taking advantage of their position of access to players' tickets.

If, however, the BCLC retailer and BCLC retailer employee rate of win remained inexplicable, then the procedures in place to protect players who handed their tickets to BCLC's "face and hands" in the community had to be soundly designed and effectively implemented, as it was only their operation that could allow players to be confident that the inexplicable rate of win was not connected to the tickets they passed across the counter or gave to the server to be checked.

We examined those procedures from the perspective of following up on the statements made by BCLC and GPEB in December 2006 about what they were and how they operated. In particular, we looked at information collection, validation procedures,[9] compliance and enforcement procedures and how complaints were handled.

The issue that caused people in the fall of 2006 to question the protections BCLC had in place to ensure its lottery prizes were properly paid out, was whether BCLC retailers and BCLC retailer employees were winning at an inexplicably higher rate than ordinary players, and if so, why?

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[8] See Investigation – Collection of Information and Data section of this report for more detail.

[9] See Appendix A, Glossary of Lottery Terms

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BCLC itself tried to explain why its retailers were winning, as the statistics it released indicated, 2.54 per cent of major prizes of $10,000 or more. To do that it needed to determine if this rate of win was consistent with how many BCLC retailers and BCLC retailer employees were playing lottery games and their frequency of play. Unless those two numbers could be reliably established, and, when combined, produced a result that indicated 2.54 per cent was a reasonable rate of win, there would still be concerns that other factors, such as access to players winning tickets, explained the higher rate of wins.

BCLC did not have any reliable means of finding out how many BCLC retailers and BCLC retailer employees there were. It produced an estimate, based on limited information, of 45,000 people. BCLC had no reliable means of determining the rates of play of BCLC retailers and BCLC retailer employees. It used an estimate of 1.9 times that of ordinary players. This came from a survey conducted in Ontario among its retailers shortly after the October 26, 2006 Fifth Estate broadcast. BCLC said it had decided not to do a survey at that time because it was concerned that the results would be unreliable, but it still used the results of the presumably equally unreliable Ontario survey.

BCLC hired a statistician and told him to rely on the accuracy of its two estimates. He did so and concluded that a win rate of 2.54 per cent of major prizes would not be unreasonable. He provided no conclusions about the reasonableness of a win rate of 4.41 per cent of prizes, which was the BCLC retailer and BCLC retailer employee rate of win for prizes $10,000 or more when Keno was included with other games. Another number he did not comment on was on the reasonableness of the BCLC retailer and BCLC retailer employee rate of win of 11.6 per cent for Keno prizes of $10,000 or more.

BCLC's data on the number of BCLC retailers and retailer employees playing lottery games and its data on the rate of play is not reliable. Consequently, it cannot reasonably explain the rate of their wins of major prizes of $10,000 or more. Indeed, even that rate of win is questionable. BCLC essentially relied on self-identification by retailers and retailer employees claiming prizes over $10,000. It had a list of less than 25 per cent of the names of these individuals against which to confirm the identity of a person claiming the prize. Many unidentified BCLC retailer employees may have claimed prizes.

The usefulness of these statistical calculations is also limited as they apply to less than one per cent of winning tickets and less than 20 per cent of prize money. How many BCLC retailers and BCLC retailer employees claim prizes worth under $10,000 is unknown. Our investigation did discover some BCLC retailers and BCLC retailer employees however who were winning regularly prizes both above and below $10,000.

BCLC was aware before October 2006 of a number of multiple BCLC retailer and BCLC retailer employee wins of $10,000 or more. BCLC, however, did not track BCLC retailer and BCLC retailer employee wins under $10,000 even when it could.

We looked at BCLC files on prize payouts between 1999 and 2007. Unfortunately, these files related only to those people who came to the BCLC offices in Kamloops or Richmond to claim prizes (less than one per cent of all prize payouts). We looked for all BCLC retailer and BCLC retailer employee wins.

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In only those files, over seven years, we found 21 BCLC retailers or BCLC retailer employees who were multiple winners. One person won 11 times in five years a total of over $300,000. Another claimed over $10, 000 every year for four years. Two claimed over $8,000 in three years out of four. One claimed 13 prizes over $3,000 in one year.[10]

In 2005/2006 there were 120 Keno prize payouts of $10,000 or more. Fifteen of those prizes were claimed by people who identified themselves as BCLC retailers or BCLC retailer employees. Three of those prizes were claimed by the same individual.[11]

BCLC did not look at these prize payouts any differently, from the perspective of the security, than a series of individual wins. Neither did it conduct any statistical assessments to determine if the rate of win of some BCLC retailers and BCLC retailer employees merited a more careful examination.

While no one knows why these BCLC retailers and BCLC retailer employees won at the rate they did under or over $10,000, BCLC should have been interested enough to try and find out.

The lack of reliable information combined with the small percentage of prize payouts tracked makes it is impossible to factually explain the BCLC retailer and BCLC retailer employee rate of win. For prizes over $10,000 it remains inexplicable. For prizes under $10,000 it remains unknown.

BCLC, in not having a procedure in place to collect this information, has failed not only its players who have reasonable questions but also honest BCLC retailers and BCLC retailer employees who have faced the brunt of player suspicion.

The term "validation process" is used by BCLC to describe the procedures in place to ensure the correct prize is paid out to the rightful owner of a winning ticket. We looked at whether BCLC's validation procedures were so well structured and operated so effectively that it would not be possible for unscrupulous BCLC retailers or BCLC retailer employees to take advantage of players. We did not find that was the case.[12]

When we looked at those procedures, we found they varied depending on the value of the prize. The procedures that applied to a win of $2,999 were different from the procedures that applied to a win of $9,999, which was again different from the procedures that applied to a win of $10,000 or more.

In October 2006 more than 96 per cent of winning tickets had prizes of less than $3,000 and were paid out by BCLC retailers with no scrutiny by BCLC.

Although there were some technological aids in place to assist a player in determining if he or she was a winner, they all had serious weaknesses.

In less than 50 per cent of the retail outlets and less than 25 per cent of the hospitality outlets, a player could use a Check-A-Ticket machine (CAT)[13] that would tell him or her that a ticket was a winner, but not how much had been won. Between 2004 and 2006 all retail outlets had been equipped with ticket terminals

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[10] See Appendix F, Multiple Retail Winners

[11] See Appendix F, Multiple Retail Winners

[12] See Investigation – Validation Procedures section of this report for more detail.

[13] See Appendix A, Glossary of Lottery Terms.

that had a screen that showed the amount of a prize, though that screen could be turned away from the customer, partially or fully hidden by other displays, inaccessible to the players view (for example in a bar setting), not be working, or not be visible because it was at another checkout or on the opposite side of the booth. This visible notification of a win could be terminated instantly by the BCLC retailer or BCLC retailer employee.

In addition, the terminal played the "You're in the Money" tune (the jingle). The volume of the jingle could be turned down until it was inaudible, or if it was in a noisy bar setting, it might simply be inaudible. The jingle cut off as soon as the screen display was terminated.

The most notable weakness we found was that if the amount of the win was between $201 and $3,000 that jingle would not automatically play. It would only do so if the BCLC retailer or BCLC retailer employee made another entry that told the machine that they had the funds to pay out the prize. Otherwise no music would be heard.

If a BCLC retailer or BCLC retailer employee cashed out a winning ticket, then they were required by BCLC to not return the ticket to the player and to throw it away. Along with prize money, a winner was supposed to get back a validation slip.[14] This validation slip did not have the winning numbers on it but rather a 20 digit control number which had been on the original ticket. Few people memorized that number so they could be sure the validation slip they got back matched the ticket they had handed over.

There were some additional procedures that applied to the tickets for wins up to $10,000 that were cashed in at the 27 super-retailers[15] across the province (less than three per cent of all tickets cashed in). At those locations, for prizes over $1,000, the person cashing in the winning ticket had to provide a name, identification and a signature. However when those tickets were sent to BCLC they simply checked to see they had not been physically tampered with (e.g. there was no white-out on them). BCLC kept no record of the information on the ticket and did no auditing or verification to check whether the person paid was a BCLC retailer or BCLC retailer employee.

For more than 99 per cent of winning tickets and 80 per cent of the prize money paid out, there was no check that the rightful owner of a winning ticket was the person who was paid the prize. Anyone familiar with BCLC prize payout procedures would know that these prizes would be the easiest to cash in. There was no record of BCLC retailer or BCLC retailer employee rate of wins for these prizes.

The only effective payout protection for those prizes was a player's own knowledge, powers of observation, persistence and assertiveness and the inherent honesty of the individual BCLC retailer or BCLC retailer employee validating the ticket.

BCLC only became involved in those prize payout procedures if a customer complained. BCLC put the onus on the player to protect him or herself. A fatal flaw, however, was if the player did not know or observe enough to conclude he or she had been taken advantage of then he or she would not complain at all.

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[14] See Appendix A, Glossary of Lottery Terms.
[15] See Appendix A, Glossary of Lottery Terms.

BCLC did become involved in validating the 0.001 per cent of winning tickets with prizes of $10,000 or more. An interview of the claimant was conducted by its prize payout staff. While they asked if a claimant was connected with BCLC, because BCLC had no list of all BCLC retailer employees they could not in most cases check this if a person did not self-identify.

The questions BCLC prize payout asked to determine if the person presenting the ticket was the rightful owner, which related mostly to when and where the ticket was bought, were not sufficient to provide certainty that they were the rightful owner of the ticket, particularly for anyone who knew how the system worked.

In addition, there was significant flexibility in determining what was an acceptable answer to these questions. One BCLC retailer who won a prize in excess of $500,000 was paid out after an answer to these security questions that was recorded in the file as "About two weeks ago – not sure. This was actually a free ticket. May have got it somewhere else." Another BCLC retailer was paid a prize over $1 million even though she could not identify the correct date of purchase.

In many cases, the window of opportunity for ticket purchase is limited by the nature of the game. For example, using information on BCLC's own website it is reasonably easy to pin down the time that a Keno ticket was purchased to within a few minutes.

The interview process was not rigorous enough to reliably catch someone who acquired a ticket dishonestly. Even if someone said they simply found the ticket that did not mean that ultimately they would not be paid.

The procedures and checks in place at each level of BCLC's validation procedures had serious weaknesses and were inadequate to achieve their stated goal of ensuring the correct prize was paid to the rightful owner of a winning ticket.

An integral part of any security procedure is how an organization looks out for and responds to suspicious activity. BCLC explained that it had mechanisms to identify, investigate and respond to suspicious activity by its retailers. We looked at how its internal watchdog process worked; what its sales managers who were actually in the store did; and how any breaches by BCLC retailers or BCLC retailer employees were investigated. We looked for audits to confirm that compliance with these processes was being monitored.[16]

BCLC's Internal Watchdog's only use from a security perspective was to identify multiple attempts to validate scratch and win tickets. These are a concern because they may indicate that attempts are being made to guess the validating numbers on tickets to see if they are a winner. If more than three attempts are made then an alert is passed to the Consumer Services department in Kamloops. We were told this resulted in a call from Consumer Services being made to the BCLC retail outlet. In fact those alerts are only responded to during working hours if Customer Service personnel are not too busy with calls. When followup does occur their tone is not probing but appears more an attempt to help the person who has triggered the alert.

We were told BCLC Sales Managers, who visit retail outlets, were a source of security, that they would notice validation problems. BCLC Sales Representatives only visit retailers whose annual lottery products sales exceed $175,000. In addition, their security duties were not important enough to be included in their job description

[16] See Investigation – Compliance/Enforcement section of this report for more detail.

Sales Representatives told us that monitoring retail outlets for compliance with BCLC validation processes was not a primary focus during their visits. If they notice something wrong they would address the issue but usually by reminding the BCLC retailer of the proper procedure. The primary purpose of their visits, which are usually scheduled, is to sell new products.

Sales representatives were often used to follow up after a complaint of BCLC retailer or BCLC retailer employee impropriety is identified. However there was no formal process of documenting this follow up, nor a process for continued monitoring for compliance.

One of the most serious deficiencies we noted in compliance procedures was the reduction of formal, consistent training of BCLC retailers and BCLC retailer employees by BCLC trainers. Both BCLC retailers and BCLC staff stated that this has led to a decline in compliance with proper procedures. As one BCLC retailer said, "They depend on the owners and their staff to train new employees and that is how bad habits get passed on."

BCLC did not have an active program to look for potential fraudulent activity by its retailers and retailer employees. It relied on complaints from players to trigger a security investigation.

When security investigations did take place however, and follow up with the retailer was decided upon, we found this was rarely disciplinary action. In a three year period between January 1, 2004 and December 31, 2006, BCLC opened 2,862 security investigation files. In 770 some follow up action was taken in regard to a retailer. However, only 26 of these were disciplinary actions. Ten of them were taken before October 2006, including two retailer terminations, three retailer employee terminations, two written warnings and three verbal warnings. The remaining 16 disciplinary actions were taken in the final two months of 2006.

BCLC's compliance and enforcement procedures were minimal. In situations where retailer impropriety was identified a consistent and progressive discipline process was not in place.

The keystone of the security of BCLC's prize payout process, as explained earlier, was its customers and, in particular, their complaints. We looked at how the complaints BCLC received about potential retailer fraud were recorded, analyzed, responded to, and how many of these were referred to security.[17]

Our office received complaints about actions taken by some BCLC retailers and BCLC retailer employees that raised the potential for fraud. These same types of complaints were also recorded in the customer complaints that BCLC held. They included not returning validation slips; not providing exchange or free play tickets; checking a ticket other than the one the player provided (described as palming); payment being refused because the ticket had already been validated even though that was not the case; and partial payouts of winning tickets.

While BCLC did not clearly invite players to complain about a problem on its tickets or on its website a player could call a toll free consumer services number. The same people at consumer services responded to both types of BCLC "consumers," the retailers and the players.

[17] See Investigation – Complaints Process section of this report for more detail.

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We reviewed four months of BCLC's Consumer Service phone logs. They dealt with many different types of enquiries and complaints. The decision on how these complaints were handled was up to customer service staff. They did not have a single category for suspected retailer fraud or potential retailer impropriety. It was left to their discretion to decide how to categorize a call and when a call was to be forwarded to Security for investigation.

Our focus was on customer complaints about the prize payout process and how those calls were handled. We heard from people who said they spoke to BCLC but whose phone calls were not recorded in BCLC's phone logs. We found entries in the logs missing information such as the name of the caller or a clear description of the problem which might explain this.

We found a common response to calls from players who felt they were victims of retailer fraud was to tell them if their ticket had not been signed then it was as if they had lost cash. The implication there was that the player had been negligent and there was nothing BCLC could do. One player was told that if the ticket was not signed then there was no way for her to prove the ticket was her father's.

We looked at whether all allegations of potential retailer fraud were passed on to security for evaluation and investigation. We found that was not the case. In some cases complaints about suspected retailer fraud were simply dealt with by Consumer Services.

When we asked BCLC to tell us how many calls received by Consumer Services were passed on to Security between January 1, 2005 and October 27, 2006 BCLC told us that it had no way of tracking this. We then decided to determine this ourselves. We looked at four months of Consumer Services phone logs and compared them to Security files that were opened in the same timeframe. In one month, of the 16 potential retailer fraud issues we identified in the phone logs, none were passed on to Security for investigation. In two other months more than 75 per cent of potential retailer fraud issues were not passed on to Security.

When complaints were passed on to Security however, that did not mean that Security had the means to investigate. If the complaint was that a BCLC retailer or BCLC retailer employee had kept a winning ticket and cashed it in, there was often no way to check who won if the winning prize was less than $10,000.

Indeed, unless a player could provide the exact date and time of a suspected retailer fraud or the validation slip or control number of a transaction, Security would usually not run a search of the computer system to confirm what happened.

BCLC's computer system was set up so that if a transaction had occurred more than 18 months previously, any search involved data that had to be laboriously converted back to readable form.

When Security did investigate, it might use the retailer to conduct part of the investigation into allegations of suspected employee fraud, which was a clear conflict of interest.

Even in a situation where Security believed a retailer had attempted to defraud a player, its disciplinary follow up of a verbal warning was recorded as: " … [I told the retailer] regarding this incident and as far as I was concerned nothing further will be done as the complainant does not wish to pursue this further." This does not reflect effective deterrence of further misconduct.

It would be reasonable to expect that at least the 74 files that BCLC relied upon in December 2006 in defence of the integrity of its prize payout procedure would be an accurate reflection of how many investigations BCLC Security conducted into fraudulent lottery claims over 22 months. The description of what these 74 files represented seemed to vary depending on what document described them. They were "Investigations January 1, 2005 to October 27, 2006" or " … customer complaints … received and investigated in the 22 month period" or "74 validations that resulted in investigations." In fact, they do not seem to be accurately described by any of those categories.

BCLC explained that it compiled the list of 74 by reviewing their security files and looking at six of the 38 sub-categories in its file system. It did not believe it was necessary to look at the other 32 categories. BCLC Security did not have a file category titled potential retailer fraud or retailer impropriety. It manually read through the files it had selected and concluded 74 fell into the category of fraudulent lottery claims.

We wondered about the other 32 categories and 887 files and whether they might hold any "potential retailer fraud" files. In our view this was what the 74 files were effectively being identified as.

We reviewed 10 per cent of all the files on a random basis. We found 19 where we believed there were allegations of some type of retailer fraud. Some of these allegations were in files that fell into the categories not reviewed by BCLC Security in creating its list of 74. Consequently, we concluded that the 74 files were not a reliable indicator of how many investigations had been done into potential retailer fraud in the relevant timeframe. Given the results of our examination of 10 per cent of these files, the number could be closer to 190.

We also looked at the outcomes of the 74 files BCLC did select. We found that BCLC's characterization of how they were concluded, for example, customer mistake, unintentional error, did not always match their own description of what that category contained. Nor were the descriptions consistent in the various reports it made.[18] In other cases we found the benign characterization of incidents were incorrect.

BCLC's complaints handling procedures, the cornerstone of its prize payout security was not set up to adequately deal with allegations of potential retailer fraud.

Senior managers in BCLC certainly knew that players were complaining about potential retailer fraud. Correspondence in their files included descriptions of numerous public complaints, alleging retailer misconduct in the lottery ticket validation process back to 2002. The complaints seem familiar. Some involved situations where the player felt that the lottery retailer had either not returned the validation slip, or had provided the player with the wrong slip and in both situations the retailer claimed the prize for her/himself or only paid a small portion of the prize and kept the rest.

Documents showed, for example, that BCLC concluded that from January 1, 2001 to October 24, 2002, there were 491 files characterized as "payment" or "validation" complaints. Of the 491 complaints, 15 had "varying" degrees of evidence to indicate that the retailer or the retail clerk appears to or may have attempted to commit a theft from the customer. BCLC terminated four retail agreements, required the termination of eight retail employees by retailers, and gave three retailers written warnings by BCLC.

[18] See Appendix H, Analysis of a Sample of BCLC Security Files

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In February 2002, an e-mail from Consumer Services to senior managers reported more validation problems than usual and that consumers were reporting that retailers were trying to "rip them off" but then, when confronted would quickly pay the prize and say they had made a mistake.

There is no indication, however, that senior management, given these individual complaints, ever directed an audit or study of how prize payout procedures were working. No one at the senior management level was taking a systemic approach to addressing these issues.

At the end of this investigation I concluded that:

- BCLC did not have processes in place that allowed it to track and analyze BCLC retailer and BCLC retailer employee rates of play and win.
- BCLC's validation and prize payout procedures had readily identifiable gaps that permitted BCLC retailer and BCLC retailer employee misconduct.
- BCLC did not have effective procedures for checking the security of prize pay outs for prizes under $10,000.
- BCLC's prize payout security procedures for prizes $10,000 and over were unreasonably dependent on self-identification by BCLC retailer employees.
- BCLC's internal watchdog procedures were inadequate for the purpose of reliably identifying suspicious BCLC retailer and BCLC retailer employee activity.
- BCLC's security and enforcement procedures relating to retailer impropriety were insufficient and inconsistently applied.
- BCLC did not have reliable procedures for recording, tracking and responding to purchaser/customer complaints.
- BCLC did not organize its data collection, analysis and retention to facilitate responses to those purchaser/customer complaints.

Consequently, I found BCLC's validation and prize payout procedures were unreasonable as set out in section 23(1)(v) of the *Ombudsman Act*.

BCLC has of course always been subject to regulation, audit and investigation by GPEB of the Ministry of Public Safety and Solicitor General. We reviewed what GPEB did between 2002 and 2006 in relation to BCLC's lottery retail network. We also looked at its actions in late 2006 when it investigated and reported on the integrity of BCLC's lottery retail network.

Between GPEB's establishment in 2002 and October 2006 it did not conduct any audits or investigations into BCLC's lottery retail network or into its complaints handling process.

GPEB did confirm in 2003 that BCLC was to forward to it notification under section 86 of the *Gaming Control Act* of all suspected fraudulent activity by BCLC retailers or BCLC retailer employees. It did not receive any notifications before November 2006.

Executive Summary

In 2004, GPEB received two e-mails about suspected BCLC retailer fraud from BCLC. It did not treat those e-mails as section 86 notification, nor did the e-mails cause GPEB to inquire about notification of any other potential fraudulent activity.

GPEB states that one of its roles is to investigate complaints of illegal activity related to gaming. In the small number of complaints it received about lottery retailers it relied on BCLC to conduct the investigation.

In December 2006 GPEB made public the results of its investigation into the integrity of BCLC's lottery retail network. That report did not reflect some of GPEB's own internal systemic concerns about BCLC's prize payout procedures. Although it stated that GPEB had reviewed 74 files provided by BCLC in response to GPEB's request for "reports … of attempted fraud in regards to retailers and outcomes if any" in fact GPEB only reviewed short summaries of these investigations. While it said in December 2006 that it was satisfied that BCLC had handled these complaints appropriately, in February 2007 GPEB told us that it had not yet received the complete files and could not confirm that the appropriate action had been taken in each case.

While GPEB obviously had some concerns about BCLC's scrutiny of prizes $10,000 and over, GPEB did not thoroughly investigate this issue. In our view the overall tone of the report is reassuring rather than seriously concerned. The depth of the investigation and the fact that a number of disquieting pieces of information were toned down or left out contributes to this result. For example, it did not identify that BCLC was relying on retailers to identify themselves in the prize payout interview, that BCLC was unable to verify whether prize claimants were retailers, that there was inadequate scrutiny of retailer winners, or that BCLC had paid prizes to retailers who were unable to verify the date and time of purchase of the ticket or who could easily determine the correct answers as in the case of Keno tickets.

Most significantly, despite this knowledge, GPEB only took a cursory look at the prize payout procedures for prizes under $10,000, which accounted for over 99 per cent of winning tickets. It appears that GPEB did not independently investigate this area and simply relied on BCLC's assertions that the process was adequate given the existence of Player Display Units (PDUs) and CATs and the jingle that plays when a player wins a prize. GPEB's only comments were that the PDU should be locked in place to face the customer and that CAT coverage should be increased to a greater number of retail lottery outlets. GPEB did not uncover many of the weaknesses in BCLC's prize payout procedures that our investigation revealed.

At the end of this investigation I concluded that:

- GPEB did not, prior to October 27, 2006, adequately monitor, investigate or otherwise regulate BCLC's lottery prize payout procedures or BCLC's handling of customer complaints about BCLC retailer or BCLC retailer employee fraud.
- GPEB's November/December 2006 investigation into and report on the integrity of BCLC's lottery ticket retail network was inadequate.

Consequently, I found GPEB's actions relative to regulating BCLC's lottery prize payout procedures were unreasonable as set out in section 23(1)(v) of the *Ombudsman Act* and its December 2006 investigation into and report on the integrity of BCLC's lottery ticket retail network was inadequate.

BCLC has made a number of improvements since October 2006 and throughout the course of our investigation to its prize payout procedures and is continuing to do so.

Terminal screens are being fixed in place to face the player. The jingle will be fixed to play at its maximum level for a longer time. When a ticket winning $10,000 or more is validated, that terminal will freeze until BCLC staff speaks to the ticket owner.

BCLC has committed to CAT coverage at 100 per cent of its terminals by October 2007. The CAT message now displays the exact win amounts.

In March 2007, BCLC corrected a program flaw that, previous to the correction, resulted in the jingle not playing if the win was $201 up to $3,000 and the retailer declined to pay the prize due to lack of funds.

BCLC Corporate Security will interview all winners $10,000 and over and all retailers who win over $3,000.

BCLC has reorganized its mystery shopper program so it also works as a mystery "security checker" program.

It is working on a "Retailer Corrective Action" policy that will set out clear standards for progressive discipline for retailer misconduct.

BCLC Security is playing a much more active role in verifying compliance and enforcement.

BCLC Consumer Services now has an improved phone system that allows player complaints to be accurately recorded, and in February 2007 our review of BCLC phone logs showed 100 per cent of potential retailer fraud issues were passed to security.

BCLC now reports all cases of suspected retailer fraud to GPEB.

These improvements have all been made when the number of player complaints about potential retailer fraud has skyrocketed.

As this report demonstrates more still needs to be done to achieve the fairness, strict accountability and transparency that BCLC itself says it considers indispensable to its successful operation. Our findings identify the deficiencies and our 27 recommendations are designed to set out what needs to be done so that the rightful owners of winning tickets can be confident that they receive the correct prize.

It is always tempting to look for simple solutions. Prohibiting retailer and retailer employees from playing BCLC lottery games is one such solution. That, however, would punish the many honest retailers and retailer employees – the people who responded to our survey and themselves recommended improvements to the prize payout procedures. The recommendations we make may seem less dramatic, but are designed to more effectively fill the gaps in the current system.

It will be important however for BCLC itself not to drop the ball again, to apply its capacities, as it does in its pre-point of sale security processes and its marketing, to protect its players.

Lotteries and games of chance have had a lengthy, varied and often turbulent history worldwide. The earliest references to gambling date back to biblical times and historical accounts indicate that many countries had early forms of gaming. Proceeds from lotteries were used to partially fund the construction of the Great Wall of China and the construction of buildings at several Ivy League universities including Harvard, Yale and Columbia. Hospitals, churches and orphanages were also among some of the first beneficiaries of lottery proceeds. Many early lotteries, however, were dogged by corruption and scandal and, until the middle of last century, laws prohibiting all forms of gambling were commonplace across North America.

In Canada, until 1969, all gambling except horse racing was illegal. In 1969, the *Criminal Code* was amended to provide a number of exceptions. As a result, today, while gambling continues to be illegal, there are a number of legalized exceptions, including the operation of a lottery scheme by a provincial government and by a charitable or religious organization when the proceeds are used for charitable or religious purposes.[19]

In May 1974, British Columbia joined with Alberta, Saskatchewan and Manitoba to form the Western Canada Lottery Foundation (WCLF). The foundation was headquartered in Winnipeg under a ten year written agreement between the four provinces.

By 1982, British Columbians were providing almost half of the revenue of the WCLF and that year the British Columbia government initiated discussion with the other partner provinces about moving the base of operations to British Columbia. The ten-year agreement expired in July 1984 and later that year, with no decision reached about moving WCLF's headquarters to British Columbia, Premier Bill Bennett announced the creation of the British Columbia Lottery Foundation. In April 1985, the British Columbia Lottery Corporation (BCLC) opened for business with the Corporation's headquarters located in the interior city of Kamloops.[20]

Today BCLC is a huge corporation which, in 2005/2006 generated $2.26 billion dollars in revenue and over $900 million in income to the provincial government. In the 2005/2006 fiscal year, $556.4 million of this provincial income went into the provincial consolidated revenue fund. A further $137.7 million of this money was earmarked for a variety of charitable organizations. Gambling in British Columbia is regulated by the Province through the Gaming Policy and Enforcement Branch (GPEB) of the Ministry of Public Safety and Solicitor General.

BCLC's roughly 600 employees are distributed between the Kamloops headquarters, the Richmond sales and marketing office and a variety of province-wide gaming operations. BCLC also contracts with a network of approximately 4,400 lottery retailers who sell lottery products through an agreement with BCLC. Through this retailer network, individuals around the province can purchase a variety of lottery products at a number of locations including convenience stores, mall outlets, gas stations, bars and pubs. Additionally, registered users can purchase Lotto 6/49, BC/49, Pay Day, Lotto Super 7, Keno and Sports Action tickets online[21] through BCLC's PlayNow service. BCLC lottery products are not sold outside of British Columbia and all purchasers must be over 19 years of age.

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[19] Section 207; *Criminal Code*; R.S. 1985, C-46.

[20] *The Globe and Mail*, (1984, October 13), B.C. quits Western lottery foundation, p. 13, and *The Globe and Mail*, (1984, October 10), Bennett demands transfer of Western lottery to BC, p. 8.

[21] See Appendix A, Glossary of Lottery Terms, for a description of many BCLC lottery games.

Backg

BCLC has a wide variety of lottery products which include instant games such as scratch and win and Pull Tabs, draw games such as Lotto 6/49, BC/49, Lotto Super 7, Pay Day and the Extra as well as wagering games such as Sports Action.[22]

What Prompted Our Investigation?

On December 18, 2006 an Ombudsman investigation was announced into the procedures BCLC had in place to ensure the lottery process was fair for members of the public. The Office of the Ombudsman has the authority to investigate an administrative act, conduct, procedure, decision or omission that may aggrieve a person if it is done by a provincial authority. BCLC is one of those provincial authorities. In this case the procedure was the prize payout procedure of BCLC and the people who it may aggrieve were the ordinary players holding winning lottery tickets.

While the immediate reason for this investigation and report was the absence of a reliable, reasonable explanation for the apparently high rate of retailer wins of major prizes, there had been several weeks of questions that preceded this announcement.

On October 25, 2006, the Canadian Broadcasting Corporation aired, on its Fifth Estate program, the documentary the Luck of the Draw which told the story of Mr. Bob Edmonds, an Ontario man who had his Ontario Lottery and Gaming Corporation (OLG) lottery ticket stolen by an unscrupulous lottery clerk. The Fifth Estate focused on the actions of the OLG in the Edmonds case and the high incidence of lottery wins by retailers in Ontario.

On October 26, 2006, the Vancouver Sun made a freedom of information (FOI) request to the BCLC in regard to the issue of retailer lottery wins in British Columbia. The FOI request asked for the number of lottery retailers who won lottery prizes of $3,000 or more and a copy of all investigations into fraudulent lottery claims since January 1, 2005. On December 11, 2006, BCLC released to the Vancouver Sun, the number of lottery retailers who won prizes of $10,000 or more[23] since January 1, 2000 and information about BCLC's investigations into fraudulent lottery claims since January 1, 2005. On December 12, 2006, BCLC produced an Information Bulletin on its website, including copies of the records released. The records included documents entitled: Validation[24] Fact Sheet, Backgrounder on Retailer Wins, Retailer Win Rates, Executive Summary of Investigations, and Retailer Winner Investigations 2005 and 2006 (the FOI Records).

The FOI Records indicated that, from April 1, 2000 to October 27, 2006, lottery retailers won 81 lottery prizes $10,000 or greater (not including Keno), which is 2.54 per cent of all lottery prize claims $10,000 or greater (not including Keno). In the same time frame, lottery retailers won 177 lottery prizes $10,000 or greater (including Keno), which is 4.41 per cent of all lottery prize claims $10,000 or greater (including Keno).[25] BCLC stated that information was not available for retailer win rates for prizes valued at less than $10,000.

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[22] See Appendix A, Glossary of Lottery Terms for a description of many BCLC lottery games.

[23] BCLC could not provide information on retailer wins between $3,000 and $9,999 as this information was not tracked.

[24] See Appendix A, Glossary of Lottery Terms.

[25] Our calculations indicate that the retailer win rate for Keno is 11.6 per cent.

Background

In the December 12, 2006 information bulletin on the BCLC website entitled "Subject: Questions About Lottery Retailer Practices," BCLC stated:

> Recent media reports have raised questions about the integrity of ticket validation and retailer participation in various Canadian jurisdictions. While we do not believe that there is a significant problem, we have in place a number of processes and security checks to ensure that our players can feel confident knowing that our systems have the highest level of integrity. These are supported by audits by both BCLC staff and our regulator, the Gaming Policy & Enforcement Branch, Ministry of the Solicitor General & Public Safety.
>
> But it doesn't stop there. We continuously review our policies and procedures to ensure that they are appropriate for the marketplace and will introduce improvements as required. The security and integrity of BCLC games is paramount. It is of utmost importance to us that our games are fair, that the correct prizes are paid to the rightful holder of each ticket and that the player experience is a positive one.

The "Lottery Ticket Validations Fact Sheet" on the BCLC website stated:

> **Customer Complaints Received and Investigated**
>
> - A total of 74 customer complaints were received and investigated in the 22 month period.
> - Of the 74 investigations:
>   - 24 were conclusively established to be mistakes made by customers with the customers having received the correct prizes;
>   - 30 complaints were unintentional errors made by the retailer with, where applicable, correct prizes being paid to the customers;
>   - 15 complaints were established to be inconclusive errors made by the retailers;
>   - 4 investigations were determined to be retailer or retailer employee impropriety, resulting in terminations; and
>   - 1 case is still under investigation.

In the backgrounder on the BCLC website entitled "Retailer Lottery Wins and Investigations into "Fraudulent Lottery Claims,"" BCLC stated:

> **Q. Since 2000 retailers have taken home 2.54 per cent of all major prizes for comparable lottery games across Canada. Is this reasonable knowing that retailers do not make up this percentage of the population?**
>
> A. Yes, we believe so.
> That belief comes from the scrutiny we place on all prize claimants, but especially retailers, who come forward to claim prizes. We simply will not pay out a major prize if there is anything irregular about the ticket, or the information provided by the claimant during the interview process at our prize claim offices. In addition, despite processing nearly ½ million ticket validations every day, our consumer complaints have been minimal and rarely do subsequent investigations establish retailer impropriety.

> We cannot compare win rates of retailers to the general population without factoring in play rates, which are virtually impossible together [sic] on retailers as a segment of the general population … .
>
> **Q. How do you account for the higher win rate among retailers for Keno?**
>
> A. There could be several explanations for the higher win rate: frequency of play, and accessibility. Some retailers may be purchasing tickets while on shift which is against BCLC policy … .
>
> **Q. What does BCLC do to prevent lottery retailer fraud?**
>
> A. The security and integrity of BCLC games is paramount. It is of utmost importance to us that our games are fair, that the correct prizes are paid to the rightful holder of each ticket and that the player experience is a positive one. While we do not believe that there is a significant problem, we have in place policies and procedures, internal and external audits, reviews and security checks to ensure that our players can feel confident knowing that our systems have the highest level of integrity.
>
> > Retailer wins are subject to more in-depth investigation by BCLC Security staff including a number of validation security checks to determine and verify that the claimant is the rightful holder of the ticket.
> >
> > We continuously review our policies and procedures to ensure that they are appropriate for the marketplace and will introduce improvements as required.

While it appeared that BCLC's position was that retailers won more large prizes because they played more often, the Vancouver Sun reported on December 14, 2006, that BCLC had told their reporter that it did not have any data on how often retailers play. The article further quoted BCLC as saying that it did not plan to undertake such a survey due to its concern that retailers would under-report the frequency of their gambling.[26] The article also stated that BCLC had estimated that four or five people work at each of the 4,336 lottery terminals in the province. The reporter concluded that there were therefore approximately 21,000 retailers in British Columbia, which amounted to approximately 0.7 per cent of the population (i.e. 0.7 per cent of the adult population is winning 4.41 per cent of all lottery prizes of $10,000 or greater, including Keno). The reporter further concluded that, given the win rates of retailers provided by BCLC, retailers were winning at "roughly six times the rate of the public." The article noted that BCLC then revised its "educated guess" of the number of retailers to 10 persons per terminal, amounting to 43,000 retailers. The reporter noted that, if this revised estimate was correct, retailers were winning at "three times the normal rate."

[26] Skelton, C. (December 14, 2006). Integrity of lottery system at stake, expert says. *The Vancouver Sun*, B1.

As the British Columbia Lottery Corporation could not provide information on retailer play rates to support its conclusion that retailers were not unfairly winning lottery prizes, the Ombudsman initiated an investigation on December 15, 2006 into how BCLC ensures that the lottery validation process is fair. BCLC indicated that it welcomed our investigation and we can confirm that BCLC cooperated fully with our investigation.

After the Ombudsman's announcement of our investigation, our office saw a significant increase in the number of calls relating to BCLC. Some callers had specific complaints about their dealings with BCLC while others wanted to share their comments with us for use in our investigation.

While some callers had concerns about a variety of different issues, the role of the Office of the Ombudsman as prescribed by legislation focuses on procedural and administrative fairness and therefore certain issues were not included in our investigation. For example:

- Game design
- Generation of winning numbers
- Social gaming issues
- Distribution of lottery revenues

However, two matters, while outside the focus of our investigation into the fairness of the lottery validation process, are worthy of comment and are included as Appendix C.

In regard to the fairness of the lottery validation process, we heard concerns from callers about a variety of different lottery games and we found that a number of recurrent themes appeared in the stories of individuals who contacted us. For example:

- I think I won more than the retailer said I won.
- The retailer said I did not win, but I am sure I did.
- I think the retailer stole my winning ticket.
- The retailer did not give me a validation slip.
- The retailer threw my original ticket in the garbage.
- The retailer would not give me a validation slip or return my ticket even when I asked.
- I could not hear the music jingle on the lottery terminal.
- I could not see the screen on the lottery terminal.
- I called BCLC to complain about an incident and I was ignored.

A number of the individuals who contacted us provided specific suggestions to improve the fairness of the BCLC processes. For example:

- It should be mandatory for retailers to return tickets.
- Retailers should not be allowed to turn down the music jingle, turn the screen away from the player or clear the screen before the player has a chance to see it.
- Retailers should not be able to play or should not be able to play on their own machines.
- Check-A-Ticket machines should identify the amount of the win.

During the course of our investigation, we spoke with numerous callers and complainants, interviewed a number of BCLC staff, reviewed a large amount of documentary material, visited both the Richmond and Kamloops BCLC offices and the ticket production and warehousing facilities, spoke with representatives of the Gaming Policy and Enforcement Branch, and invited submissions from retailers. Our survey of retailers did not gather information to determine the number of retailers in the province or the play rates of the retailers as this is not the role of the Office of the Ombudsman.

Collection of Information and Data

This section is based on information and processes that the British Columbia Lottery Corporation had in place at the start of our investigation. In some areas, BCLC has initiated changes and improvements, which are identified throughout the report.[27]

In order for BCLC to conclude with statistical confidence that the retailer win rates are not unreasonable, BCLC needs to know, with reasonable confidence, the number of retailers in the province, the frequency and dollar amount of their play and the frequency and dollar amount of retailer wins. However, during the course of our investigation, we learned that BCLC does not collect sufficient data in a number of areas.

Number of Retailers

BCLC does not have a complete list of retailer names. Collecting an accurate list of retailer names should be the starting point for collecting information on how often retailers play and win. Without a complete list, BCLC is unable to verify that individuals claiming prizes are not retailers or track the rate of retailer play / wins. Rather, BCLC relies on a retailer self-identification system. At the beginning of our investigation, it was *only* winners claiming prizes $10,000 and over who were asked if they were connected to BCLC. If they said no, BCLC did not make further inquiries.

What information does BCLC have? As every retail outlet (approximately 4,400 in the province) has a signed Lottery Operations Agreement (LOA) with BCLC, BCLC has a list of every individual who signed as, or on behalf of, the owner of the lottery retail outlet.

As well, BCLC has a list of contact names at retail outlets, intended for the BCLC Sales Department to use to contact the retailer to order lottery products. However, this list does not come close to encompassing all individuals who have access to the lottery terminals. It does not include the names of most of the retailer employees that handle lottery tickets. Our review of the database indicates that it contains approximately 10,000 names. If BCLC is correct in its estimate that there are 45,000 individuals in the province who handle lottery tickets, the 10,000 name database represents only 22 per cent of the total.

In regard to lottery retailer employees, the LOA states:

> The Retailer covenants and agrees …
>
> (g) to designate those employees, ***acceptable to the Corporation*** [emphasis added] who will be performing the sales and operational functions …

However, despite this wording, BCLC does not require that retail owners provide a list of the employees working at the lottery terminals.

We asked BCLC for the number of individuals in the province that handle lottery tickets in retail and hospitality outlets. BCLC stated that it had recently completed a survey concluding that there are approximately 45,000 such individuals.

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[27] The reader may wish to refer to Appendix D, Flowcharts of Lottery Ticket Validation Processes, when reading this section. These flowcharts outline the BCLC validation process.

To do this survey, BCLC contacted nine persons at the managerial level of nine corporations that each have a chain of retail outlets (e.g. a chain of gasoline service stations, a chain of convenience stores). In addition, BCLC contacted two representatives of its Hospitality Council and three representatives of its Retail Council and gathered information from its field staff. BCLC asked these contacts their estimate of the average or typical number of persons in each lottery outlet under their responsibility that handle lottery tickets. BCLC then used that information to estimate how many retailers there are in the province that handle lottery tickets.

We do not have confidence in the accuracy of BCLC's estimate given its survey methods. However, even if the number of retailers in the province is 45,000, this equates to 1.3 per cent of the adult population winning 4.41 per cent of all lottery prizes $10,000 or more (including Keno).

Retailer Play

BCLC does not have definitive information on how often retailers play or how much they spend on lottery products. BCLC's response to our office's questions about retailer play rates was that it could not perform a survey because of all the media attention recently given to this issue. Retailers, it concluded, would likely under-report their play. BCLC then stated that the Ontario Lottery and Gaming Corporation (OLG) had recently completed a survey of retailers in Ontario, in similar circumstances, concluding that Ontario retailers play 1.9 times more than the average person.

BCLC forwarded OLG's estimate that lottery retailers played at a rate 1.9 times that of the average player as well as its second estimate that there were 45,000 retailers in British Columbia, to a statistician. Using these two estimates, the statistician concluded that the retailer win rate would be expected to be 2.6 per cent of all the winning tickets in the province.

Of course, no one, including BCLC, currently knows whether BCLC retailers and BCLC retailer employees play 1.9 times more than the average British Columbian or whether BCLC's estimate of 45,000 retailers is accurate. Even the statistician BCLC hired did not explain why BCLC retailers and BCLC retailer employees would win at a rate as high as 4.41 per cent for all lottery prizes (including Keno) $10,000 and over or as high as 11.6 per cent for Keno prizes $10,000 and over.

The actual 4.41 per cent lottery retailer win rate for all lottery prizes $10,000 and greater (including Keno) in British Columbia is 1.7 times greater than the expected win rate, even if the number of BCLC retailers and retailer-employees is accepted to be 45,000 and if the Ontario assumption that retailers play 1.9 times as often as the rest of British Columbians is presumed.

For Keno, retailers won 11.6 per cent of the Keno prizes $10,000 and over. If there are 45,000 retailers in British Columbia as BCLC estimates, they represent 1.3 per cent of the adult population in British Columbia. Even accepting BCLC's estimates of 45,000 retailers, the Keno wins per retailer were 8.9 times more than the Keno wins per person in the rest of the adult population in British Columbia.

Wins Under $10,000

Wins under $10,000 account for more than 99 per cent of winning tickets and more than 80 per cent of the prize money.[28] However, BCLC does not track winner information for the vast majority of wins under $10,000. It only tracks wins under $10,000 if the individuals claimed their winnings at the Richmond or Kamloops offices (which amounts to 0.44 per cent of wins under $10,000). Given the increased odds of winning smaller prizes, it raises the question of how many retailers are winning untracked and unscrutinized prizes of under $10,000 if 4.41 per cent of prizes over $10,000 are won by retailers.

Winners claiming prizes at super-retailers between $1,001 and $9,999 are asked for their name, signature, and identification so that the super-retailer can fill in a form that prints automatically on the lottery terminal. The information on these forms was not analyzed by BCLC in any way. Super-retailers are required to forward the forms to BCLC, and while BCLC advised that the forms are then "audited," we learned that the forms are only reviewed to ensure they have not been tampered with (e.g. that there is no white-out on them). In our view, this is not an "audit." BCLC fails to enter the identification into a database or conduct checks to ensure that the winner actually received the correct prize amount.

Multiple Retailer Winners

During the course of our investigation, we found that there were a number of retailers who had won $10,000 or greater more than once over the past five years.[29] In fact, there are a number of retailers in British Columbia that won significant amounts of money numerous times. Some of these retailers also won multiple prizes less than $10,000 (although we only know those that claimed prizes less than $10,000 at the two BCLC offices as this is the only time records are kept of under $10,000 wins). There are also a number of multiple retailer wins from the same retail location.

The following are summaries of three of those scenarios:

- A retailer that won 13 times in 2000/2001. This retailer also won three times in 1999/2000, two times in 1998-1999, one time in 1997/1998. The winnings for this retailer totalled in the range of $175,000.
- A retailer winning 11 times between 2001 and 2007. All but one of those wins, were in excess of $10,000 and included 4 wins in 2003/2004 and four wins 2005/2006. The winnings for this retailer totalled in the range of $300,000.
- A retailer with multiple Keno wins. In 2005/2006 there were 120 major Keno wins. Of the 120 major Keno wins, 15 were won by retailers (1.3 per cent of the population won approximately 12.5 per cent of all major Keno wins in 2005/2006). Of the 15 major retailer Keno wins, three were won by the same retailer. That means that one retailer won 20 per cent of the 15 retailer Keno wins in 2005/2006. This retailer was a joint winner and had 10 wins between 2003 and 2007 for a total win amount of about $100,000.

[28] See Appendix E, Validation Statistics.
[29] See Appendix F, Multiple Retailer Winners.

BCLC was not aware of some of these multiple retailer winners until it focused on this data as a consequence of our investigation as BCLC was not systematically tracking multiple retailer wins. By not tracking multiple retailer winners and subjecting them to an appropriate level of scrutiny (arguably a higher level of scrutiny is warranted when retailers win more than once), we do not believe that BCLC is able to conclude with confidence that the rightful owners of the prizes were paid out in all instances.

These multiple retailer win scenarios certainly raise questions. What is the statistical likelihood of these individual situations ever occurring? Given the lack of information available to BCLC on more than 99 per cent of retailer wins, BCLC is not in a position to say anything at all about retailer win rates with confidence.

BCLC Recent Changes

During the course of our investigation, BCLC made two changes in regard to its collection of information about retailer numbers, play rates and wins. As of March 26, 2007, BCLC started asking *all* winners collecting prizes from the BCLC Richmond or Kamloops office whether they are BCLC retailers or a close relative of a BCLC retailer (instead of only asking those who won $10,000 and over). This information is now being tracked by BCLC in a database and we are advised that reports can be run on demand. However, in 2005/2006, only 0.44 per cent of prizes under $10,000 were claimed at BCLC offices in Richmond or Kamloops. As well, an accurate count will still be dependent on BCLC retailers' and BCLC retailer employees' self-identification.

As of April 19, 2007, BCLC instructed casinos (the only remaining super-retailers) to ask winners of prizes $1,001 – $9,999 whether they are BCLC retailers or related to a BCLC retailer. If the person self-identifies, BCLC Corporate Security is contacted. BCLC advised that it has not worked out the process by which BCLC security will be involved in these files (GPEB's recommendation was that security would interview these people, but it is unclear whether this interview will be in person or via telephone).

Even with these two changes, BCLC will only be asking whether the prize claimant is a retailer or related to a retailer for the 0.44 per cent of winners claiming prizes at BCLC offices in Richmond or Kamloops and a portion of the 2.6 per cent of winners that claim prizes at casinos. The portion of total prize claimants that will be asked if they are (or are related to) retailers will be less than 3.1 per cent. More than 96 per cent of prize claimants will not be asked that question.

Given the lack of data collection by BCLC, the high number of retailer wins, and the number of multiple retailer wins, BCLC cannot validly conclude that the retailer rates of win are normal. While BCLC has made some positive changes in the area of data collection, the changes have not gone far enough.

The outstanding gaps are the collection of information on the number of retailers in the province, the names of the retailers, the frequency and amount that the retailers play and winner information on wins under $10,000 (including retailer wins). The wins $3,000 and under, which in 2005/2006 accounted for more than 96 per cent of the winning tickets and more than 76 per cent of the prize money, are especially vulnerable because the lottery retailers have the ability to pay these out without any involvement by BCLC.

Ombudsman Finding

1. BCLC did not have processes in place that allowed it to track and analyze BCLC retailer and BCLC retailer employee rates of play and win.

Ombudsman Recommendations

1. BCLC create and maintain a list of current identifying information on all BCLC retailers and BCLC retailer employees (insiders).
2. BCLC require all BCLC retailers and BCLC retailer employees (insiders) to use a swipe card or enter a code before all purchases of lottery products in order to collect a prize.
3. BCLC report publicly and annually on the rate of insider play and wins at all prize levels.

Investigation

Validation Procedures

You take your $2,500 winning lottery ticket into a retailer. You do not know it is a winner because you have not checked the numbers yourself. You trust the retailer to tell you whether or not it is a winner. The retailer feeds the ticket in the lottery terminal and tells you it is not a winner. You have no reason to disbelieve the retailer because you did not hear the "You're in the Money" jingle that you have heard in the past when you have won. The retailer does not offer you a validation slip or your ticket back. You walk away. If the BCLC retailer or BCLC retailer employee was dishonest he or she could complete the transaction and pay himself or herself the $2,500. This situation could happen and nothing would be recorded by BCLC.

BCLC's Position: Obligation on the Player; Obligation on the Retailer

As noted earlier, in the December 2006 backgrounder on retailer wins posted on BCLC's website, BCLC states:

> The security and integrity of BCLC games is paramount. It is of utmost importance to us that our games are fair, that the correct prizes are paid to the rightful holder of each ticket and that the player experience is a positive one. While we do not believe that there is a significant problem, we have in place policies and procedures, internal and external audits, reviews and security checks to ensure that our players can feel confident knowing that our systems have the highest level of integrity.
>
> Retailer wins are subject to more in-depth investigation by BCLC Security staff including a number of validation security checks to determine and verify that the claimant is the rightful holder of the ticket.
>
> We continuously review our policies and procedures to ensure that they are appropriate for the marketplace and will introduce improvements as required.

Throughout the course of our investigation, BCLC's position has been that the validation process is fair and ensures that the correct person is paid the correct amount. BCLC points to the validation procedures it has in place, coupled with what it sees as the obligation of the player to protect himself or herself. In this regard, BCLC advised our office that customers should take a number of steps to protect themselves, including:

- Putting their names on their tickets and signing the back of the ticket;
- Watching the Player Display Unit (PDU)[10] and listening for the jingle;
- Requesting a validation slip from the retailer; and
- Checking their own tickets on BCLC's website, in the newspaper, or with the Check-a-Ticket (CAT) machine.

BCLC has taken a number of steps over the past few months to outline BCLC's expectations regarding customer protection practices to the public in jackpot advertisements, on lottery tickets, and in point-of-sale material at retail outlets.

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[10] See Appendix A, Glossary of Lottery Terms.

Investigations

BCLC also makes it very clear that it does not consider retailers to be agents of BCLC. The retailers' lottery operations agreement (LOA) with BCLC states that retailers are independent contractors and not agents of BCLC. In a number of Consumer Services'[3] phone logs, players who outline concerns with improper retailer actions are advised to return to the retailer to deal with the problem. The implication is that the issue is between the player and the-retailer, and does not involve BCLC.

What is an agent? Black's Law Dictionary defines an agent as:

> A person authorized by another (principal) to act for or in place of him; one intrusted with another's business.

BCLC advised our office that while the retailers are not agents of BCLC, the LOA between BCLC and the retailers outlines various obligations of the retailer such as:

- The retailer must follow all rules, directives, instructions, and operating manuals of BCLC;
- The retailer must not "engage in conduct that, in the sole discretion of the Corporation, is contrary to the public interest or harmful to the integrity or reputation of the lotteries"; and
- The retailer must not play lottery games while on active duty.

BCLC stated that it reminds retailers of proper validation procedures and of their obligation not to play lottery games while on shift. For example, BCLC recently sent two letters to retailers reminding them of proper validation procedures and advising retailers to remind players to sign the back of their tickets. BCLC also includes validation procedure reminders on retailers' lottery terminals upon sign-in and in lottery newsletters.

While the Ombudsman agrees that it is important for players to understand the actions that they can take to protect themselves, the onus is on BCLC, not on the player, to ensure that the processes put in place by BCLC are fair and work for everyone.

While we agree that it is important for players to understand the actions that they can take to protect themselves, the onus is on BCLC, not on the player to ensure that the processes put in place by BCLC are fair and work for everyone.

Government-run lotteries are only one of a few exceptions to the law that otherwise makes gambling illegal. As such, BCLC occupies a unique niche in the market. BCLC has few if any real competitors in the lottery marketplace.

A recent Ontario court case[4] confirmed that the Ontario Lottery and Gaming Corporation (OLG) owed a duty of care to a player where the lottery corporation knew or ought to have known that a retailer could "gain an unfair advantage … and try to claim a customer's ticket as their own." In this case, the court accepted that by adopting an "Insider Win Policy," the OLG acknowledged the possibility of retailer impropriety. BCLC has a similar policy and, as such, owes a duty of care to its players.

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[3] See Appendix A, Glossary of Lottery Terms.

[4] *Edmonds v. Laplante*, 861039 Ontario Limited, and Ontario Lottery and Gaming Corporation, March 15, 2005, 02/CV 226280M3.

In our initial meeting with BCLC, Vic Poleschuk, President and CEO, stated:

> As a Crown agency and a commercial gaming company whose business is based on the trust and confidence of the player, our products must be offered in a fair manner. BCLC's first corporate value is integrity – integrity of both the games and the processes. If you buy a ticket and do not feel that you have a fair and equal chance of winning, why would you play?

In running its lottery operations, BCLC has chosen to sell and validate its products through the use of lottery retailers, who are the point of contact with the public. BCLC must take some responsibility for the actions of these retailers. While BCLC's relationship with its retailers may not be a legal agency relationship, when BCLC learns that a retailer may not be acting in the best interests of the public, BCLC must act in a decisive and timely manner.

Given that so much of the proceeds of BCLC's games go to the province, confidence in the fairness of the lottery system becomes increasingly important.

BCLC's Validation Procedures[33]

When a customer wants to check whether he or she has a winning ticket, there are a number of ways to do this. For lottery tickets, the player can look up the winning numbers in the newspaper or on the BCLC website or pick up a copy of the winning numbers from any lottery outlet. The player can also check an online ticket[34] at a Check-A-Ticket (CAT) machine which were located in 42 per cent of the lottery outlets in the province in October of 2006.

For scratch and win tickets, the customer has no way to check whether the ticket is a winner except by reading and (hopefully) understanding the rules on the ticket and scratching the ticket. The CAT machine is not set up to read scratch and win tickets.

At the beginning of our investigation, the CAT indicated whether the online ticket was a winner or not. It did not indicate the amount of the win and therefore, a player using the machine would not be immediately aware of the amount of the win, especially given the multitude of lottery games each with their own prize structure. For example, matching three numbers on Lotto 6/49 wins $10, but matching three numbers on Super 7 wins a free play. Matching four or more numbers on BC/49 wins $75 but matching four numbers on Lotto 6/49 wins a portion of nine per cent of the total prize pool (a much larger amount). While the amount of the pool may be known, the player would certainly not know what his or her portion of the nine per cent of the total prize pool works out to.

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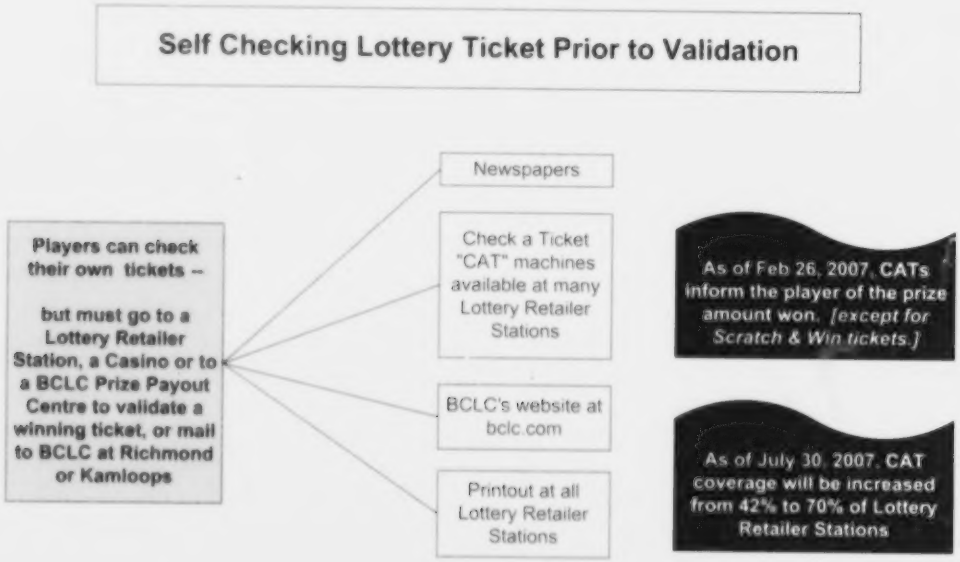
[33] The reader may wish to read this section in conjunction with Appendix D, Flowcharts of Lottery Ticket Validation Processes.

[34] See Appendix A, Glossary of Lottery Terms.


Self Checking Lottery Ticket Prior to Validation
Players can check their own tickets --
but must go to a Lottery Retailer Station, a Casino or to a BCLC Prize Payout Centre to validate a winning ticket, or mail to BCLC at Richmond or Kamloops
Newspapers
Check a Ticket "CAT" machines available at many Lottery Retailer Stations
BCLC's website at bclc.com
Printout at all Lottery Retailer Stations
As of Feb 26, 2007, CATs inform the player of the prize amount won. [except for Scratch & Win tickets.]
As of July 30, 2007, CAT coverage will be increased from 42% to 70% of Lottery Retailer Stations

For the player to actually be paid the amount of the win, the player *must* take the online or scratch and win ticket to a lottery outlet for validation. That is a requirement imposed by BCLC.

Non-Winning Tickets

When a player gives a non-winning ticket to a lottery retailer, the retailer must insert it into the lottery terminal scanner[5] to check whether it is a winner. The validation enquiry will indicate that the ticket is "Not a Winner." A validation slip automatically prints with this information, and the retailer, according to BCLC policy (which the retailer is obligated to follow according to the LOA), is supposed to return both the non-winning ticket and the validation slip to the player. If this does not happen, the player cannot be completely confident that the ticket was not a winner.

Wins Under $10,000

Wins $200 and Under

For wins $200 and under, which is the vast majority of wins, the lottery retailer is required under its LOA to pay out the win. The lottery terminal verifies that the ticket is a winner, and is supposed to play the "You're in the Money" jingle. The Player Display Unit (PDU), which is supposed to face the player, should indicate the amount of the win, if any. A validation slip automatically prints confirming the amount of the win. The lottery retailer is supposed to return the validation slip to the player and "trash" the winning ticket. For prize payouts $200 and under, BCLC does not require that the retailer ask any questions of the winner. No ID is taken, no signature is required, and the winner claiming a prize at a retailer station is not asked

[5] See Appendix A, Glossary of Lottery Terms.

whether or not he or she is a retailer. While some winners may sign the back of their ticket, the retailer is not required to ensure that the ticket is signed, and, as the ticket ends up in the garbage, the signature on the back of the ticket in the current system has limited value.

Wins $201 Up to and Including $3,000

For wins $201 up to and including $3,000, the retailer may pay the win if the retailer has the funds available.[36] However, the validation process or scrutiny differs depending on whether the player redeems the ticket at a regular retailer or a super-retailer. Until April 23, 2007, there were approximately 27 super-retailers in the province, including casinos and large lottery retailers such as Real Canadian Superstore and large shopping centre lottery outlets. As of April 23, 2007, the only super-retailers remaining were five casinos (Kelowna, Victoria, Nanaimo, Prince George and Cranbrook).

At regular retailers, if the retailer has the funds to pay the prize, the payment occurs with no questions being asked of the player. Again, no identification or signature is required, and no question is asked to determine whether the winner is a retailer. However, at super-retailers, for prizes over $1,000, the super-retailer is obligated to fill out a slip with some information on the winner – including the winner's name, ID and signature. However, no question is asked to determine if the winner is a retailer. While BCLC informed us that these slips are "audited" by BCLC, we found out that this was not an accurate description. As noted previously, the slips are sent to BCLC and BCLC reviews the slips to ensure that they have not been tampered with (e.g. no white-out appears on the slip). The slips are not recorded in any way and no audits are done to ensure that the winner whose information is recorded was actually paid the prize.

In addition, it was for these wins $201 up to and including $3,000 that we discovered another major security gap in the validation process. Specifically, for wins $201 up to and including $3,000, the jingle did not play and no validation slip printed out. It was only after the retailer was asked by the lottery terminal, "Do you have enough funds to pay?" and the retailer indicated, "yes" that the jingle played and a validation slip printed out. Before indicating "yes" on the terminal, a dishonest retailer could tell the player it is not a winner, and the player would not suspect anything was wrong (because the jingle did not play). A dishonest retailer could then finish the transaction once the player was gone, paying himself for the win.

Wins $3,001 Up to and including $9,999

For wins of $3,001 to and including $9,999, only super-retailers or BCLC offices in Richmond or Kamloops could pay the prize. This group accounts for less than 2.6 per cent of winning tickets and less than 3.8 per cent of the prize money. The winner, at a super-retailer, would be asked a number of questions and the answers recorded on a payout validation slip. This was subsequently sent to BCLC however BCLC did not enter this information in a database, audit it or otherwise use it to confirm the validity of the win.

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[36] Before November 30, 1991, retailers could only pay claims up to $200. Between November 30, 1991 and April 16, 1994, retailers could only pay claims up to $1,000. As of April 17, 1994, retailers could pay claims up to $3,000.

Cash and Trash Policy

Prior to 1998, BCLC required players to fill out their name, phone number and address on the back of winning tickets. After the retailer showed the player the validation slip, the winning tickets and validation slips were then returned to BCLC. This was to ensure the tickets were removed from the marketplace. No audits were performed using the information. If there were customer or retailer complaints pertaining to a specific validation, BCLC could locate the information in the warehouse. However, the information was only kept for 30 days, after which time it was destroyed.

On October 1, 1998, BCLC implemented the Cash and Trash policy, which resulted in a significant monetary savings to BCLC in shipping and storage costs. This policy required retailers to throw the winning tickets in the garbage after paying the prize and forbade retailers from returning winning tickets to the player after the win was paid out. Until February 16, 2003, the validation slip was shown to the player but not returned to the player. After February 16, 2003, the validation slip was returned to the player.

We reviewed internal BCLC documents that indicate that BCLC was aware that moving to a Cash and Trash policy could make it easier for retailers to "defraud the player":

> INABILITY TO INVESTIGATE SOME CUSTOMER COMPLAINTS. RISK – POTENTIALLY EASIER TO DEFRAUD THE PLAYER
>
> The requirement to return validated winning tickets and cancelled tickets to BCLC encourages honesty and reduces the chance that these tickets will be re-circulated.
>
> Security Department handles complaints from customers about not receiving the correct prize. Currently, if the complaint is received reasonably quickly, Security are able to intercept the Settlement Envelope and determine whether the correct prize was paid. In most cases the retailer has paid the correct prize. However, on occasion, Security has found that the clerk has cheated the customer by paying an incorrect prize. We have had a number of incidents, over the years, where Security has recommended that the retailer be dropped from the BCLC retailer network, or the clerk responsible be fired.
>
> Under "Cash & Trash," a little of the integrity and customer service will be lost. However, other lottery jurisdictions seem to be able to live with a "Cash & Trash" policy.

One of the major themes we heard from complainants was that they felt their winning tickets should be returned to them so they have a record of the original numbers played, can confirm for themselves that the correct amount was paid out, and can be reassured that a dishonest retailer is not taking the ticket in for redemption. As we will discuss later in the report, by not having the original ticket returned, players are put at a serious disadvantage when the player suspects that they were not paid the correct amount and takes their complaint to BCLC. In brief, BCLC is generally unable to investigate this type of complaint thoroughly unless the player can provide the exact details of the validation transaction.

BCLC told our office that winning tickets cannot be returned to players because confusion would occur if players tried to cash in a winning ticket a second time. BCLC's position is that the current process – having the retailer return the validation slip, not the winning ticket, to the player – works. We do not agree and we do not see why the original ticket could not be returned to the player, perhaps after being marked "already paid" (e.g. by stamping or punching the ticket).

We heard again and again from complainants that retailers frequently do not return the validation slip. As well, after reviewing a large sample of BCLC complaint files and internal BCLC correspondence, we can confidently say that this complaint is very common. BCLC often told these players that they need to remind retailers to give them a validation slip. We reject this argument. While it is important for players to be aware that a validation slip should be produced, the onus should not be on the player to demand a validation slip.

Even if the validation slip is returned to the player, the validation slip does not have the original numbers on it. How does the player know that the validation slip being given to them corresponds to their original ticket? What if the retailer fed a different non-winning ticket into the lottery terminal scanner and the validation slip stating "Not a Winner" corresponded to this ticket instead of the player's ticket? BCLC says that players should compare the control number on the original ticket to the control number on the validation slip. However, we do not find this process reasonable. It is highly unlikely that a player will have committed the 20-digit control number to memory. If the retailer is following the Cash and Trash policy, the winning ticket will have been thrown in the garbage making it impossible for the player to compare the control numbers. We heard many stories where complainants asked to see the winning ticket and the retailer refused, saying that it had already been thrown out.

Another potential area for retailer impropriety arises because a photocopied ticket can be validated. There is nothing to stop a retailer from taking a photocopy of the original ticket when it is sold and validating it himself or herself after the draw. When the ticket owner attempts to validate the original ticket, the validation slip will read "already validated" and the retailer would then decline to pay the prize to the ticket owner explaining that the prize has already been paid out to someone. This was the scenario in one of the proven retailer impropriety cases that BCLC investigated recently. However, if the original ticket was returned to the player, marked "already paid," the validation of photocopied tickets would no longer be an issue. If a ticket was presented for payment that was not stamped "already paid" and the message "already validated" came up, BCLC would know that the ticket was previously validated improperly (e.g., from a photocopy).

"You're in the Money" Jingle

One of the important security measures that BCLC emphasizes in the lottery validation process is the jingle, which is supposed to alert the player that the ticket is a winner after the retailer feeds the ticket into the lottery terminal. A major flaw that we discovered is that the jingle was not programmed to play for wins $201 up to and including $3,000 when the retailer declined to pay the prize due to lack of funds (as the retailer can do if the prize amount is above $200). Not only did we notice this when we visited the Richmond BCLC office for a demonstration on the lottery terminals, but we also heard this concern a number of times from retailers who answered our online questionnaire. BCLC's response was that it became aware of this glitch after the Fifth Estate program and they were in the process of fixing the problem. (It has

now been fixed). Nonetheless, we question why it took the broadcasting of the Fifth Estate program to spur BCLC into action on such an important security issue, one that should have been apparent to BCLC if only it had been looking for these types of problems.

During the course of our investigation, we discovered that even when the jingle plays, it is not a fool-proof security measure. When we began this investigation, the volume on the speakers could be turned down by the retailer. In our review of Consumer Services phone logs, we noted that one caller identified a concern with a retailer who had turned down the jingle. He said that when he asked the retailer if the volume was turned down, he was told, "I'll tell you what you've won." This call to BCLC Consumer Services was not passed along to the BCLC security department.

There are other problems. The retailer could cut the speaker wire with no alert being sent to BCLC. The jingle may not be heard in noisy lottery outlets. We have a major concern with Keno and Pacific Hold 'Em games played in bars and restaurants. In this type of outlet the lottery terminal is often located at the bar and the player is able to give the ticket to the server to check. In these cases, the player is not standing near the speakers. Even if they are, the noisy nature of these establishments may make it very difficult to hear the jingle in many cases.

If any of these problems arose, BCLC would not know that there was anything wrong unless a customer complained, as BCLC does not have a compliance program to look for these types of problems. Further, as we discuss below, even if a customer complained about this type of issue, we are not confident that the matter would have been addressed. We note that BCLC has now programmed the jingle to play an extended version of the song, "You're in the Money" and fixed the volume of the speakers at the maximum volume with the retailer no longer having the ability to adjust the volume. However, the potential wire cutting issue and the noise/bar problem have not been addressed.

Player Display Units (PDUs)

You take your ticket into a BCLC retailer to check and you hear the jingle so you know that you have won. You are told, "Congratulations – you've won $10!" You are happy and you leave the store with your $10 bill. The retailer does not give you a validation slip. What could happen if a BCLC retailer or BCLC retailer employee was unscrupulous is that he or she fed the ticket into the lottery terminal scanner and noticed a win of $150. The screen that was supposed to be facing you had been turned around so you could not see it, or perhaps there was a promotional display blocking your view of the screen, or you were distracted for a few moments. The unscrupulous retailer pocketed the $140 without having to fill in any paper work for BCLC.

Up until October 2004, there were no screens (PDUs) facing the customer at lottery outlets. In other words, only the retailer could see the amount of the win, not the customer. The PDUs were installed at every lottery location between October 2004 and January 2006. Now, there are PDUs at every retail location, which is a positive change. However, it became apparent during our investigation that a common complaint was that retailers could turn and were turning the screen away from the player. Locking the screens in place facing the player was one of the Gaming Policy and Enforcement Branch's (GPEB) December 2006 recommendations that BCLC is in the process of implementing across the province. However, there is nothing stopping retailers from placing items in front of the screen, thereby blocking the player's view. Again, BCLC's response is that customers could complain to BCLC if this were the case, and that the BCLC Sales Representatives

who visit the retail outlets would notice this problem and ensure it is corrected. However, as detailed later in the report, we are not convinced that the Sales Representatives are on site often enough to ensure these problems are avoided. As well, Sales Representatives do not visit the less profitable locations.

At the start of our investigation, there were a number of other issues with the PDUs. The winning message on the PDU could be cleared by the retailer as soon as it appeared. In the blink of an eye, the message could appear and then disappear. BCLC advised us that it was aware of this issue and was in the process of fixing it. BCLC advises that as of March 26, 2007, the winning message could not be immediately cleared by the retailer. Again, while this is a positive improvement, we question why it took the broadcasting of the Fifth Estate program and the subsequent media attention for BCLC to notice what should have been an obvious problem.

Another issue is the potential for the PDU wires to be cut or the PDU simply unplugged by the retailer. If these actions occurred, BCLC would not know unless a customer complained or a BCLC Sales Representative noticed when on site. Further, as outlined above, there are many bars and restaurants where the player is not able or required to stand at the lottery terminal. The PDU facing the player is not much assistance in these cases.

Finally, we noticed a number of examples of retail locations in which the PDU, while facing the player, was not effective for various reasons. For example, we witnessed a lottery booth with two terminals and two PDUs, set up for two line-ups. However, there was only one side open, with two clerks working. Every second person therefore had their ticket checked by the second clerk, who would walk over to the second terminal and validate the ticket. The player was not asked to follow the clerk to the other side and therefore could not see the PDU. Another example we witnessed was a drugstore where there was only one check-out with a lottery terminal. This checkout was not open. When a customer in the other checkout presented a lottery ticket, the clerk would walk over to the closed checkout to validate the ticket. Again, the customer was not asked to walk over to the PDU. We note that our interviews with Sales Representatives supported that the problems identified in these examples exist. One Sales Representative even stated that retailers are not required to invite players over to the terminal where the PDU is located.

These types of problems are ones that would only be caught if BCLC were looking for these types of issues, and had a compliance program in place to audit and/or look for problems, which it did not. The BCLC Sales Representatives were not looking for these issues, and nor were they the appropriate individuals to be doing so.

Check-A-Ticket Machines (CATs)

At the start of our investigation, a player could use a Check-A-Ticket machine (CAT) in 42 per cent of the lottery outlets in British Columbia to check whether she or he held a winning lottery ticket. The CAT would indicate "Winner – Please see Retailer" or "Not a Winner." If the ticket was a winner, the CAT would not indicate the amount of the win, and, as such, the player would still need to rely on the retailer for this information. BCLC initially told us that its reluctance to include the amount of the win on the CAT was

because of a concern for players' safety. In other words, if the CAT indicated that a player had won a large prize, someone standing in line behind the player may see this message and steal the ticket or cause other harm to the player. We did not agree that the risks outweighed the benefits in this regard.

However, BCLC indicated early on in our investigation that it would be programming the CATs to show the amount of the win and additional CATs were being installed in an additional 30 per cent of lottery locations (increasing the coverage to 73 per cent). We continue to question whether 73 per cent coverage is adequate. Why should players in certain locations in British Columbia not be as well protected as in others? We heard from numerous individuals, including BCLC Sales Representatives, that CAT coverage should be 100 per cent. Presuming BCLC intends to continue with a system whereby the player gives up custody of his ticket to a lottery retailer, there should be 100 per cent CAT coverage.

The CATs can only check online lottery tickets, not scratch and win tickets. While GPEB agreed that BCLC need not include scratch and win checking in the CATs, GPEB said that it would continue discussions with BCLC to determine the effectiveness of the additional coverage and whether scratch and wins should be checked at the CATs in the future. We heard from a number of individuals including BCLC Sales Representatives that it is not always readily apparent whether a player has won a prize on a scratch and win ticket, given the complexity of some of the games and the existence of multiple play areas that some players may miss. As such, it would be very useful for players to be able to check their scratch and win tickets at the CATs.

Another concern is that the CATs, like PDUs, can be unplugged without the knowledge of BCLC.

Keno Self-Service Terminals (SSTs)

BCLC has not increased the coverage of Keno Self-Service Terminals (SSTs), which are only available in 22 per cent of bars/restaurants selling Keno. We find the playing of Keno in liquor-selling establishments troubling from a validation perspective for a number of reasons.

First, players may not be as alert or diligent in checking their numbers against the Keno board if they are drinking and socializing, especially given the fast-paced nature of the games (each Keno game only lasts five minutes). A player in a bar for three hours could play 36 consecutive Keno games. It is unlikely that a player will be watching the Keno board for three hours confirming every number as it arises. In these cases, the player relies on the retailer to validate the ticket. BCLC points out that players can ask for a print-out of all of the winning numbers for the past number of hours, but there is no information to suggest that players do this consistently.

As well, many liquor-establishments allow their waiters and waitresses to take the players' ticket to the bar to check if it is a winner. The player remains at the table and does not have the benefit of the jingle or the PDU, and in many cases, the validation slip. Even when the player walks up to the bar to check the ticket, we witnessed situations in which the bartender took the ticket down to the other end of the bar where the lottery terminal is located, without inviting the player to follow. No validation slip was given. There is nothing to stop an unscrupulous retailer from validating a $500 winning ticket, paying a tipsy patron $100 and keeping the rest. BCLC retailers and BCLC retailer employees are supposed to give the player a validation slip, but this did not seem to be a common occurrence.

Presuming that BCLC intends to continue with a system whereby the player gives up custody of his or her ticket to a lottery retailer, SST coverage should be expanded to 100 per cent coverage.

Potential Scams – Under $10,000

What do BC Retailers Say?

"If the player doesn't understand how to play the ticket, it's quite easy for the retailer to look at the ticket and tell them it's not a winner, throw it into their garbage or recycling, and retrieve it later and validate it."

"There is nothing to stop a retailer from cashing it after the customer has left and ripping it up (provided they have enough cash in the till)."

"[BCLC is] not monitoring tickets under $3,000 because they can be cashed right at the booth. So I can see how someone could scam smaller tickets if they were inclined to do it."

Quotes from BCLC retailers who answered our online questionnaire

No Validation Slip

The most common complaint we heard during our investigation was that retailers could validate a winning ticket, tell the player that it is not a winner and not give a validation slip or the original ticket back to the player. The retailer could then pay himself or herself the winnings (up to $3,000) without any documentation required to be forwarded to BCLC.

Not Giving Exchange Ticket[17] or Free Ticket

We reviewed a number of complaints in which the complainant said that the retailer did not return the player's exchange ticket or issue a free ticket that was won. In the vast majority of cases, BCLC's response was to contact the retailer and advise the retailer that he or she should ensure the player received the correct ticket. In many cases, the retailer's actions were not investigated. In some cases, while there was an investigation, BCLC concluded that it was the player's word against the retailer's word and therefore no follow up or discipline was warranted.

Palming

During our investigation, we heard a number of individuals express concern that retailers were engaging in "palming" – in other words, the retailer was entering a known non-winning ticket into the lottery terminal scanner, thus producing a "Not a Winner" validation slip, which is given to the customer. The retailer then keeps the original winning ticket and either cashes it in himself or herself (if the prize is $3,000 or under) or takes it into BCLC or a super-retailer to cash (if the prize is over $3,000).

What do BC Retailers Say?

"Retailer could 'switch' a winning ticket with a non-wiiner [sic] or a winning ticket for a smaller amount."

"What prevents the retailer from using a "dummy" ticket to inform someone they have no winner?"

Quotes from BCLC retailers who answered our online questionnaire

[17] See Appendix A, Glossary of Lottery Terms.

Investigation

We reviewed one example in which the retailer was given four tickets to validate. The retailer returned four validation slips to the customer, all indicating "Not a Winner." For many people, this would have been the end of the story, but, in this case, the player knew that one ticket was a $25 winner. The player argued with the retailer and the retailer eventually paid her the $25. Two of the validation slips indicating "Not a Winner" corresponded to the same control number. In other words, it appears that the retailer had fed the same non-winning ticket into the lottery terminal scanner twice and attempted to pocket the $25 winner. The player says that she called BCLC about the incident and was told that all BCLC could do is teach the retailer how to properly use the lottery terminal.

What happens when a retailer feeds the same ticket into the lottery terminal scanner more than once? Why does the second validation slip not indicate that it has already been entered? Is BCLC alerted when the same ticket is fed in more than once? We asked BCLC these questions, and discovered that the answer lies in the way the information is purged from the BCLC validation computer data files. For winning tickets, the validation computer file is kept for 30 days.[35] During this 30-day period, if the ticket is fed into the lottery terminal scanner again, the validation slip will read: "Already Validated." After 30 days, the validation slip will read "Not a Winner." For non-winning tickets, the validation computer file is purged right away, and therefore when the ticket is fed in for the second time, the validation slip reads: "Not a Winner." It does not indicate that the ticket has already been checked.

A dishonest retailer attempting to defraud a winning player could feed known non-winning tickets into the lottery terminal scanner every time a player presents a ticket for validation. Each time, a "Not a Winner" message will appear on the validation slip, and unless the player is on top of the situation like the complainant in the example above, the player will walk away thinking that they did not win.

BCLC has acknowledged that retailers could enter the same non-winning ticket into the lottery terminal scanner over and over and BCLC would not automatically be alerted. BCLC pointed out that even if this happened, it may just be an innocent mistake by the retailer. While this is true, it may also be deliberate fraud, especially easy for those wins between $201 and $3,000 in which the jingle did not play.

"Already Validated"

One of the cases that BCLC reported as retailer impropriety in a recent security investigation involved a retailer who was paying himself when presented with a winning ticket and giving the player a validation slip that said "Already Validated" (which would print the second time the retailer entered the ticket into the lottery terminal). The retailer was insinuating that the player had already cashed in the ticket and it could not be cashed again. In this case, BCLC investigated appropriately, cancelled this retailer's contract and removed the lottery terminals.

In reviewing BCLC internal documents, we learned that BCLC acknowledged receiving many complaints from players in which the player was refused payment because the ticket was "already validated." To deal with these complaints, BCLC has a policy whereby claims under a certain amount are paid without further investigation. Larger claims are investigated to determine when and where the ticket was validated. If the

[35] Up until Dec. 2006, the information was purged after 11 days. After December 2006, the information was kept for 30 days. BCLC advises that sometime in fiscal year 2007-2008, the data will be kept for one year.

retailer acknowledges that the player has not received the prize, BCLC pays the prize to the player. If the retailer says that it paid the prize to the player (in essence, it is the retailer's word against the player's word), BCLC will not pay the prize and will advise the player to deal directly with the retailer. A 1999 BCLC policy document stated:

> For prizes greater than [dollar amount] … the player will only be paid if it is determined that the retailer did not pay the prize. If the retailer claims to have paid the prize, the player's claim will [sic] to BCLC will be denied. This means that BCLC will always make the assumption that the retailer, not the player, is right.

A subsequent 2003 policy document was less direct but still stated that BCLC will not pay a prize if the retailer claims to have paid it already. Even if Security investigates a validation claim, if they are unable to resolve the dispute then BCLC leaves the matter to be resolved between the retailer and the player.

We heard from one complainant who took his two winning tickets ($50 and $30) into a retailer to be validated (he knew they were winners as he had checked the numbers in the newspaper). The retailer told him they were not winning tickets and gave him a validation slip saying "Not a Winner." The player took his original tickets into the BCLC office in Richmond. He was eventually sent a letter from the Player Services Department explaining that the tickets were validated and paid out more than 30 days before he came into the retailer. As the winning data information is purged after 30 days, he received the "Not a Winner" message. The player was adamant that he had never cashed the tickets. BCLC was willing to pay the player for the $80. When we asked BCLC for its security file, we were advised that BCLC security did not have a file on this issue as the BCLC Player Services department had not escalated the complaint to the BCLC Security Department.

This is an example of an area ripe for retailer impropriety that BCLC was aware of and yet did not take a proactive approach to solving. Why is there no follow up done on these specific retailers to investigate whether they are engaging in improper conduct? Why is the retailer not penalized if improper conduct is found?

We also do not feel that the term "already validated" is adequate to raise a red flag to the player – to convey to the player that the ticket has already been fed through the system, it was a winner, and the prize paid out.

Partial Win Payment

Another area for potential retailer fraud is where the retailer pays the player part of the win, keeping the rest for himself or herself. We reviewed a BCLC security investigation file in which the complainant was paid $1,000, and not given a validation slip. The complainant indicated that the screen was not facing the customer. When the complainant noticed later that night that the prize was actually $1,277 (a percentage of the jackpot) and approached BCLC, BCLC checked the transaction record, verified that the win was for $1,277, and paid the complainant the additional $277. BCLC concluded that this was an "act of deceit in an attempt to cheat a senior citizen." The lottery retailer's contract with BCLC was terminated.

While the above example had a happy ending (for the complainant at least), we reviewed similar complaints from other individuals who felt that it was suspicious that they had won exactly $100 or exactly $500 (given that the prize in those instances was a percentage of a jackpot pool). They felt that the retailer most likely

pocketed the rest of the win. When these individuals approached BCLC, BCLC did not do a search as it had in the above case because the complainants did not know the exact time and date of the occurrence and/or the control number of their ticket. BCLC closed the files, concluding that no wrongdoing had occurred. At our request, BCLC was able to check and determine that there were four wins of exactly $100 in the timeframe of the $100 complaint and is still checking to see if there were any exact $500 wins.

In both this scenario and the "palming" scenario, the players would have been better protected if they had received their winning tickets back. Any suspicions they had with the validation could then have been investigated by BCLC because the control number of the original ticket could be searched in the gaming system.

"Please Validate Tomorrow"

We learned that a $1,000 or greater Keno win will show up as $0.00 on the PDU and the jingle will not play. A validation slip prints that says "Winner – Please Validate Tomorrow." However, the second time that the ticket is entered into the lottery terminal, the message on the validation slip reads "Please Validate Tomorrow." It does not indicate that the ticket is a winner. There is an opportunity for dishonest retailers to tell the player that the ticket is not a winner (and not return the validation slip or the original ticket, keeping it for themselves to check later). The player would not know whether the ticket was a winner. In a slightly different scenario, the player could be given the validation slip, but not the original ticket, making it difficult to claim the prize.

Similarly, draw game tickets (with the exception of Keno wins under $1,000) cannot be validated on the night of the draw (after the draw) because the BCLC computers have not yet accumulated all of the winning data. If a ticket is checked on the night of the draw, the PDU will show $0.00 and the jingle will not play, even if the ticket is a winning ticket. The validation slip reads: "Please Validate Tomorrow." There is the possibility for dishonest retailers to state that the ticket is not a winner and not return the validation slip. An unscrupulous retailer could then check the ticket for himself or herself the next day. Players should therefore be made aware that there is no way for a retailer to determine whether they hold a winning ticket on the night of a draw. Players should wait until the next day to validate their tickets.

Wins $10,000 and Over

Prizes valued at $10,000 and greater can only be redeemed through BCLC offices in Richmond or Kamloops (in person or via the mail). Some winners will have checked their numbers in the newspaper, online or against the printouts available from lottery retailers. Other players will have taken their tickets into retailers for checking and (hopefully) been advised that they won $10,000 or more and therefore must redeem the ticket through a BCLC office.

When the player comes into a BCLC office the winning ticket is analyzed for irregularities. The player is asked to sit down for an interview with BCLC Prize Payout staff; this interview is done on the telephone for mail-in claims, which unfortunately removes any ability for BCLC to visually assess hesitation or discomfort.

Investigation

BCLC has assured the public that if there are any irregularities with the interview, the prize will not be paid out. You may recall the following quote from the backgrounder on retailer wins document on BCLC's website:

> … the scrutiny we place on all prize claimants, but especially retailers, who come forward to claim prizes. We simply will not pay out a major prize if there is anything irregular about the ticket, or the information provided by the claimant during the interview process at our prize claim offices.

If BCLC is not satisfied with the answers provided in the interview, BCLC can put the claim file on hold for one year. After one year, if no one else has come forward to claim the prize, BCLC will generally pay out the prize.

What types of files does BCLC place on hold? We asked BCLC for all claim files placed on hold since January 1, 2005. The following types of files are commonly placed on hold:

- Where the player has lost or damaged a ticket and fears that someone else may cash it (if the player can prove that the winning ticket belongs to them, BCLC may take the file off hold and pay the player);
- Where a retailer paid out a prize (under $10,000) to a player but did not properly complete the validation process, the retailer is not reimbursed by BCLC. The retailer then must prove to BCLC that it paid the player, and, if satisfied, BCLC takes the file off hold and reimburses the retailer;
- Where a retailer reports that lottery tickets have been stolen from a retail location;
- Where a player with a regular lottery subscription does not send in the proper paperwork for validation; and
- Where technical issues require a file be placed on hold.

In our review of the "on-hold" files between January 1, 2005 and April 11, 2007, we only found two files where prize payouts involving BCLC retailers or retail employees were placed on hold. In one case, there were markings on the ticket that needed to be sent to a lab for analysis. As the lab report was inconclusive, the file was placed on hold for one year. In the other file, a retailer called BCLC with some questions regarding the process for paying out a lottery ticket. These questions alerted BCLC to the possibility that the retailer may have been trying to claim a player's ticket. These files should have been identified in BCLC's response to the Vancouver Sun's FOI request and reported to GPEB pursuant to the *Gaming Control Act* but they were not.

Identifying the Retailers

During the course of our investigation, we sat in on a prize payout interview and reviewed a number of written interview forms. We learned that it was only for these wins ($10,000 and over) that the player was asked whether they were connected in any way with BCLC. As only 0.001 per cent of the prizes are $10,000 and over, more than 99.9 per cent of winners were not asked this very important question.

We were surprised to learn that BCLC could not verify with certainty that the answer provided to this question was accurate. BCLC advised us that it checked the winner's name against its database of retailer contacts. However, in our review of prize payout files, we noticed that often it is only the contact names at the selling location that are checked, not the validating location. Also, according to BCLC numbers, this database only includes approximately 22 per cent of the individuals who handle lottery tickets in BC.

In our opinion, the question "are you connected with BCLC in any way?" would not always elicit the correct response. More specific questions would be better such as: "Are you a lottery retailer?," "Do you work in a place that has lottery terminals?," "What is your spouse's/daughter's/son's name?," "Where do they work?," "Do they work in a place that has lottery terminals?" and "Are you related to anyone who is a lottery retailer or works in a place that has lottery terminals?" We note that BCLC has recently amended its interview form to read: "Are you in any way connected to BCLC?" and "Are you a lottery retailer or related to a lottery retailer?"

BCLC does not always ask the winner the name and occupation of his or her spouse and does not always check the name of the spouse against the retailer database. We sat in on a prize payout interview in which the winning ticket was purchased at a gas station, and, while the winner said that she was not connected in any way to BCLC, the winner's spouse was present in the interview wearing a baseball hat from the same gas station. This is worthy of a few questions.

While BCLC relies on players to self-identify as retailers, our review of a number of prize payout interviews revealed that there were examples where the claimant did not immediately identify himself or herself as a retailer.

There was one interview for a prize over $500,000 in which the interview form was marked off "no" to the question "are you connected with BCLC in any way?" The "yes" box is also checked and the note says: "should have said yes; she is employed at … and they have a lottery terminal." In this case, the claimant eventually disclosed that she was a retailer but we are not confident that this occurs every time.

Where and When Did You Buy the Ticket?

BCLC advises that the main security question of the interview is to ask the prize claimant about when and where the winning ticket was purchased. The information given by the individual is compared to the gaming system to ensure that the claimant's answers are accurate.

When we reviewed a number of prize payout files, we noticed that there were a number of retailers who were claiming more than one prize at the same time – one valued at more than $10,000 and the other less than $10,000. We were surprised to learn that, even though the "where and when did you buy the ticket" questions were asked in regard to the $10,000 or greater wins, these questions were not asked of the smaller wins.

BCLC staff advised us that the amount of leeway given when winners answer the questions depends on the circumstances. For example, we were told that if the ticket was recently purchased, BCLC would expect an exact answer. However, if it was an old ticket, a more reasonable "estimate" would be accepted. BCLC

advised that it would expect the correct location to be known in the case where there was only one ticket or one purchase location for a group of tickets. If the claimant had bought multiple tickets at multiple locations, however, BCLC advised that it would not necessarily expect the winner to know exactly where each one of the tickets had been purchased.

During our review of prize payout files, we noticed a number of examples in which a large prize was paid out to a retailer who did not know exactly when the ticket was purchased. For example, a scratch and win prize over $500,000 [9] was paid to a retailer who responded to the question "when was the ticket purchased?" with the following answer:

> About 2 weeks ago – not so sure. This was actually a free ticket. May have got it somewhere else.

As retailers do not scan a scratch and win ticket purchase into the lottery terminal, BCLC has no way to check when a scratch and win ticket was bought by the player. Therefore, even with the uncertain answer given above, BCLC paid the prize to this retailer. As well, there is no indication that the claimant was asked to describe the transaction in which she won the free ticket (this information could have been checked against the gaming system). A thorough interview process should include both a confirmation of when the scratch and win ticket was purchased (which would require BCLC to change the way it sells scratch and win tickets) and a description from the player of the previous lottery transactions that led to the winning ticket.

The second example is a prize over $1 million that was paid to a retailer who could not identify when she bought the ticket. The claimant first stated that it was purchased on a Monday between 10-10:30 a.m. The "correct" answer was the Saturday before at 10:33 am. The notes on the file indicate:

> Not sure of date and time. ..Went back to ask what date ticket was purchased. She doesn't remember – she guessed that it could have been Friday morning. She even called her husband and he didn't remember either.

Therefore, even though the "correct" answer was Saturday and the claimant first guessed Monday and then Friday, the prize was still paid to her without further investigation. As well, the winning ticket was a free ticket as a result of an earlier transaction. Again, the file does not indicate that the claimant was asked any questions about this earlier transaction.

In another example, a $30,000 Keno prize was paid to a retailer who knew the date the ticket was bought (which is pretty easy to know given that the date is on the ticket), but not the time of purchase.

During the course of our investigation, we concluded that providing the answers to the "Where and when did you buy the winning ticket?" questions may not be as difficult to provide a satisfactory answer as one would think.

First, for scratch and win tickets, BCLC has no way to check when the ticket was bought because when a scratch and win ticket is purchased by the player, it is not scanned into the lottery terminal. BCLC can only confirm which retail location that batch of scratch and win tickets was sent to.

Second, all online tickets have the retailer number where the ticket was purchased printed on the front. BCLC's response was that these numbers are secret and retailers would not know the retailer number of other retailers. We do not accept this argument. Especially in small centres, it would not be difficult to

[9] This is the same example outlined on the previous page.

determine the retailer number that belongs to a certain retail outlet. One could simply buy a ticket at a number of nearby lottery outlets until the correct retailer number was found. We also found a phone log record of a call made to Consumer Services in which the caller asked for the location associated with a certain retailer number and was provided the information.

Third, the date and time of purchase of Keno tickets is easily answered if one has the ticket. The date of purchase is on the ticket. The time is easily determined from the draw number on the ticket. Each day's draw numbers and corresponding times are on the BCLC website. Perhaps this explains why the number of multiple retailer wins is so much higher for Keno (the retailer win rate for Keno prizes $10,000 and over was 11.6 per cent). As previously stated, even using BCLC's estimate for the number of retailers in the province, retailers only represent 1.3 per cent of the adult population in British Columbia. The Keno wins per retailer were 8.9 times more than the Keno wins per person in the rest of the adult population in British Columbia.

Security's Role

If the individual *does not* self-identify as someone who is connected with BCLC (for prizes $10,000 and over), Security personnel do not get involved unless Prize Payout staff ask them to (e.g. if the ticket looks to have been tampered with).

If the individual *does* self-identify as a retailer, the Prize Payout staff consult with BCLC Security. Up until November, 2006, Security personnel did not open a file but they completed a search of the security database to see if there were any complaints against the retailer, and telephoned the retail manager to ask whether the manager was aware that the employee was redeeming a large prize. Security staff sometimes would also ask the manager whether the employee was on shift at the time that he or she purchased the ticket. Recall that, according to the retailers' contract with BCLC, retailers are not allowed to play lottery games while on shift. We reviewed a number of examples of retailer winners who appeared to be working while the winning ticket was purchased. In all cases, the prize was still paid to the retailer. In some cases, the retailer was reminded verbally by Prize Payout staff or their Sales Representative not to play while on duty. In most cases prior to the Fifth Estate program, however, no follow up was done with the retailer.

While Security personnel reviewed the prize payout files of retailer winners for prizes $10,000 and over in the manner outlined above, we do not feel that there was an adequate level of scrutiny of retailer winners. Instead of focusing on whether the retailer was the rightful owner of the ticket, the questioning seemed to focus on confirming that the prize claimant was not trying to redeem a shared ticket, whether the retailer had any payment issues with BCLC and whether there were any consumer complaints against the retail location. There was no tracking of multiple retailer winners and therefore, the same scrutiny was used for a multiple retailer winner as a first time retailer winner. Multiple winners were not consistently asked how much money they spend on lottery tickets (to see if the multiple wins are consistent with their rate of play).

Also, there was no investigation to corroborate the retailer's story regarding the purchase of the ticket. For example, if the retailer said that his co-worker Jane sold the ticket to him, no one called Jane to confirm this fact. BCLC did not always run a gaming system report to corroborate the information the claimant gave regarding how many tickets were purchased, the details of a previous transaction that resulted in a free ticket,

or what other transactions were made at the time of the validation. Finally, BCLC did not follow up or attempt to corroborate retailers' statements like "I always play the same numbers," "I won $1,000 two weeks ago" or "I was having tea with my friend Betty when I discovered that I won."

BCLC Recent Changes

A number of recent changes made by BCLC in regard to the validation process have already been discussed (e.g. locking the PDUs in place to face the player, setting the jingle at the maximum volume with no ability for the retailer to change the volume and improving the PDU display for Keno prizes of $1,000 or more checked on the draw date).[40] As well, BCLC advised that in Fiscal Year 2007/2008, it will implement a lottery terminal "freeze" at $10,000. In other words, when a $10,000 or greater winning ticket is validated at a retailer, the lottery terminal will stop working. Retailers will be required to call BCLC to unfreeze the terminal. A BCLC representative will then speak directly with the winner and provide instructions on how to redeem the prize. BCLC advised that it will also give consideration to lowering the threshold for the "freeze" to $3,000, which we feel would be a beneficial action.

Other changes have come about as a result of the GPEB recommendations. GPEB recommended:

1. BCLC Security to interview all prize winners over $25,000;
2. Non-retailer winners of prizes over $25,000 to sign a waiver certifying they are not retailers; and
3. BCLC Security to interview all retailer winners of prizes over $3,000.

We agree with these recommendations.

BCLC's response to Recommendation #1 was:

> BCLC does not agree with this recommendation and believes that our current policies and procedures are appropriate. Our Prize Payout staff members are very experienced and there have been no questions as to their qualifications and competencies. Current procedures require any irregular prize claims be referred to Corporate Security for a full security investigation.
>
> BCLC security currently reviews all major prize claims ($10,000 +) at both our Kamloops and Richmond offices, and performs a verification of the interview, key control information from the gaming system and a check of Security Databanks.

BCLC has subsequently told us that it has now accepted all GPEB recommendations and interviews all prize claims of $10,000 and over, not just those claims made at its Kamloops and Richmond offices.

BCLC agreed with Recommendation #2, and lowered the threshold to $10,000.

BCLC agreed with Recommendation #3.

While the scrutiny placed on retailer winners has certainly increased as a result of recommendation #3, and BCLC is now looking at whether retailers are playing lottery games while on shift, we still question whether the scrutiny is high enough. To illustrate, we reviewed the following recent examples:

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[40] See Appendix B, GPEB Recommendations and BCLC's Responses.

- BCLC paid prizes to a number of BCLC retailers and BCLC retailer employees without confirming their stories that a particular individual at their lottery outlet sold them the ticket;
- BCLC paid a prize to a BCLC retailer on the last day before the ticket's expiry where the BCLC retailer was unable to pinpoint the time of sale; and
- BCLC paid a prize to a BCLC retailer employee where BCLC's focus seemed to be on the fact that he did not purchase the ticket at his outlet, despite the fact that he validated it at his own store and could not recall at first where and when he bought the ticket.

Ombudsman Findings

2. BCLC's validation and prize payout procedures had readily identifiable gaps that permitted BCLC retailer and BCLC retailer employee misconduct.
3. BCLC did not have effective procedures for checking the security of prize payouts for prizes under $10,000.
4. BCLC's prize payout security procedures for prizes $10,000 and over were unreasonably dependent on self-identification by BCLC retailer employees.

Ombudsman Recommendations

4. BCLC pursue the development of technological security enhancements to monitor self-checking machines, speakers and any other devices designed to alert purchasers/customers of a win and if these devices are disabled for any reason to suspend sales at that location until they are inspected and repaired.
5. BCLC require tickets or "non-valid duplicates" to be returned to all ticket holders with appropriate markings to identify whether the ticket is not a winner; has been validated but not paid out; or is a winner and has been paid out. If a player refuses the ticket, the retailer be required to shred the ticket in front of the player.
6. BCLC include on-screen information about winning tickets in more than one language if the demographics of an area indicate this is useful.
7. BCLC impose an audit process on all wins over $3,000 that includes the requirement for a winner to make a statutory declaration that they are not a close relative of a BCLC retailer or a BCLC retailer employee.
8. BCLC require BCLC retailers to collect identification from winners for wins of $1,000 and greater and forward this information to BCLC. BCLC will then input this data into a database and perform random and regular audits to ensure the rightful owner of the winning ticket was paid the correct prize.
9. BCLC commit to moving toward implementing 100 per cent coverage of Check-A-Ticket machines and Keno Self-Serve Terminals as soon as possible.
10. BCLC implement a system where scratch and win tickets are recorded when sold to a player. BCLC to use this information as a security check during prize payout process.

Compliance/Enforcement

How does BCLC ensure that retailers are following the correct validation procedures and are not engaging in any impropriety? BCLC's response was:

> Any suspicious activity, including real or suspected retailer fraud, is thoroughly investigated by BCLC Security and appropriate action is taken. BCLC follows up on investigations to ensure proper procedures and enhance compliance by conducting follow up by site visits or in writing. BCLC takes the opportunity to learn from such investigations and adjust processes accordingly … . BCLC continually monitors retailer performance through regular visits by our retail sales force, on-site direction and additional training at BCLC offices when necessary.

We have not found BCLC's compliance and enforcement procedures adequate.

Internal Watchdog System

BCLC advised that it has a watchdog system, which is an automated gaming system monitor. BCLC stated that it "alerts excessive or irregular terminal activity, locks down [the] terminal" and either BCLC Security or Consumer Services is notified.

BCLC is not alerted when a retailer unplugs a CAT or cuts a wire on a PDU or the lottery terminal speakers.

The watchdog's main function is to monitor lottery sales at retailers. Excessive sales may trigger a lock-down of the terminal. This protects BCLC revenues and in addition, this could identify a problem gambler who could require assistance. Other alerts are sent to computer systems personnel when the lottery terminal is malfunctioning.

The only relevant task that the watchdog system performs relative to the focus of our investigation is an alert when a lottery retailer makes multiple attempts at validating a scratch and win ticket. To validate a scratch and win ticket, the retailer must scan a barcode and then enter the three digit number which is found under the latex. The three digit number must be correct in order for the ticket to be validated. The potential fraud opportunity here is that retailers, without purchasing the ticket, could be guessing at the code in order to validate the ticket for themselves.

We learned that while the watchdog system does pick up on multiple attempts at scratch and win validations, the follow up done is far from thorough. The alert is sent electronically to a computer in the Consumer Services department in Kamloops. We were surprised to learn, however, that the alert is not followed up on if it appears during BCLC's non-working hours. For example, a certain retailer could be trying this every night and BCLC would not be aware. Similarly, if the alert appears during the work day, but department personnel are too busy to notice it or the alert ends up hidden below other messages, it is not investigated.

What happens when an alert is noticed and is acted on by a Consumer Services employee during working hours? We reviewed numerous phone logs where a phone call was made to the retailer to follow up on the alert. The tone of the phone call is not probing; instead, it is helpful and forgiving. BCLC acknowledged

that as long as the retailer provides an explanation, the enquiry is dropped. In cases that we reviewed, when the retailer was able to say something like: "Oh, sorry, I just couldn't see the last digit," this was enough to satisfy the BCLC Consumer Services' representative.

BCLC advised us that after a certain number of attempts by the retailer to enter the code, BCLC Security is automatically advised by the watchdog system. We asked for all security files from January 1, 2004 to December 31, 2006 relating to these alerts. A number of security files that related to watchdog excessive sales alerts were provided for our review. Our review did not find security files for watchdog system alerts related to retailers making multiple attempts at validating scratch and win tickets.

Clearly, the watchdog system is not adequate in terms of looking for potential retailer impropriety. Again, it shows that BCLC was simply not looking for these types of issues. The system should be utilized to look for suspicious retailer behaviour on the gaming system. For example, the watchdog system could be set up to alert BCLC of potential "palming" activity when a retailer feeds in the same non-winning ticket more than once. However, in order to be effective, BCLC Security personnel would need to actively follow up on suspicious alerts, and not leave the questioning to the Consumer Services staff.

Mystery Shopping Program

Early in our investigation, we learned that BCLC did not do any regular auditing to ensure that retailers are following the rules. BCLC advised us that it has a Mystery Shopping Program, in which mystery shoppers visit retail locations unannounced and inconspicuously. However, we learned that this program was focused only on ensuring that the retailers were promoting sales and up-selling the products. The mystery shoppers were not looking for validation errors or opportunities for retailer impropriety.

BCLC subsequently advised us that it was revamping the Mystery Shopping Program to add some focus on compliance issues. Again, this action was taken in response to the Fifth Estate program.

The first phase of the new Mystery Shopping Program was completed during our investigation and we reviewed the results. In addition to rating the retailer's customer service and up-selling skills, the mystery shoppers are also now being asked to look for whether the clerk returned the validation slip, whether the clerk asked the player to sign the back of the ticket and whether the PDU was properly facing the customer. While the inclusion of these items is definitely a good start, we note that the mystery shoppers are only being sent out with *non-winning* tickets to "test" the retailers. The potential for retailer impropriety is less with a non-winning ticket. The mystery shoppers should be sent out with sample *winning* tickets of differing amounts. The mystery shoppers should also be educated in the different ways that an unscrupulous retailer may attempt to defraud a player and be asked to test these.

Finally, mystery shoppers should be specifically directed to those retailers that have been suspected of engaging in retailer fraud. As it stands, even if a security file is concluded with a warning letter sent to the retailer about a potential fraudulent activity (warning the retailer that further misbehaviour may result in the termination of its lottery contract), BCLC does not follow up to ensure that the retailer improves his or her practice.

We note that the Sales Representative follows up with the lottery locations that do not do well during the mystery shops. While any follow up is better than no follow up, we question whether the Sales Representative is the appropriate person to be doing this work. A follow up by the Security department would carry more weight.

The Role of the Sales Representative

BCLC's position has been that its Sales Representatives visit retail locations on a regular basis and they notice and address validation issues as they arise. We have reviewed the job description for the Sales Representatives and it does not include any reference to ensuring compliance in the retail outlets. Further, it seems that, in 2002, as a cost-saving measure, BCLC eliminated a number of Sales Representatives' positions, only keeping "face-to-face support by Sales Representative field staff" for retailers with sales in excess of $175,000.

We spoke with a number of Sales Representatives, and our conclusion is that while BCLC has asked Sales Representatives to focus more on compliance issues since the Fifth Estate program, compliance monitoring is not a primary focus of the Sales Representative's job. If the Sales Representative happens to be in a lottery outlet during a validation and notices the retailer doing something wrong, the Sales Representative will address the issue with the retailer through, for example, a reminder of proper validation procedures. However, the Sales Representatives are looking at the issue through a "training lens" and not through a lens of compliance, enforcement, and potential fraud. Sales Representatives do not often follow up in writing to BCLC to report a suspicion of retailer impropriety or fraud. There is also a question about how effective a Sales Representative can be in enforcing compliance when the Sales Representative is well known to the retailer and his or her visits may not be random and unannounced. It makes sense that a retailer would be on his or her "best" behaviour when the Sales Representative is around.

After BCLC Security investigates a complaint of potential retailer impropriety, Security often asks Sales Representatives to follow up with retailers to remind them of proper validation techniques. It seems that the Sales Representatives will certainly follow up as asked, but it is less certain that this follow up will be formally documented or followed up over the long term.

Retailer Training

The retailers' lottery agreement with BCLC states:

The Retailer covenants and agrees:

> (g) to designate those employees, acceptable to the Corporation who will be performing the sales and operational functions and undertake to have them attend such training sessions as the corporation may from time to time require.

Whenever we did have an actual training department that did the sweeps in the major communities and outlying areas, the one thing that I really appreciated about that was that these were professional trainers. They did a marvellous job. In my view we had so much to do in the field as a Sales Representative that; yes, we know what we are doing, but to be honest with you, I don't think we are nearly as thorough as a professional trainer. That's all they deal with and I know that I've had great comments in the past from retailers who said "Wow, that was a really thorough training, it's great." That's why I would like to see it go back to that old system.

Quote from BCLC Sales Representative

Investigation

We sent out a questionnaire to lottery retailers and learned that the perception among lottery retailers is that BCLC's focus on training has diminished over the years.

While BCLC stated that retailer training has always been a priority for BCLC, the training has become more and more decentralized since 1985. From 1985 to November 2001, BCLC employed 12 corporate trainers who offered training sessions to retailers and retail employees, with financial incentives offered to retailers to attend the training. BCLC advised that between 2001 and 2005, it employed six trainers and the main responsibility for training moved to the Sales Representatives in the field. BCLC also advised that since July 2005, it has one corporate training associate, with the rest of the training taking place in the field.

In the current system, while the Sales Representative is available to answer any training related questions, the Sales Representative does not sit down in a systematic way with every new employee at the retail outlets in order to train the new employee. Instead, the Sales Representative often tries to ensure that the retail manager or owner is properly trained and then leaves it up to that person to train new staff. As one retailer pointed out, this leads to bad habits being passed on to new staff. Another individual described the situation now as a "gong show."

We heard during our interviews with Sales Representatives that they agree with retailers that the former training system was superior to the current system. Sales Representatives indicated that the formal training system used in the past resulted in a better quality of training because the training was delivered in a consistent fashion, by professional trainers, in a classroom setting (rather than a busy store or pub) and because more individuals who sold lottery products participated in the training program.

What Do BCLC Retailers Say?

One of the biggest mistakes BCLC has made is to remove the training program for retailers and employees. They now depend on the owners and their staff to train new employees and that is how bad habits get passed on. BCLC, if it values its reputation as an honest games operator, needs to take the time and money to hire someone to go around to each retailer, review the "cash and trash" procedure, and make it clear that if they or any of their employees are caught cheating, they lose their machine.

Have absolutely every person who sells tickets attend training at BCLC with the lotteries paying for the training session. At this point in time, retailers are not required to send their employees to training. This should be mandatory. If this cannot be done, perhaps gas stations and convenience stores should not be selling the tickets.

[BCLC] should bring back training for all retailers and employees and have a yearly check up.

Quotes from BCLC retailers who answered our online questionnaire

In the past, BCLC maintained a database of retailers and retail employees trained through formal BCLC training sessions. Our review of this list indicates that only 3,978 individuals have been formally trained on the lottery terminals. BCLC estimated that there are 45,000 individuals in British Columbia who work at lottery terminals. If this assumption is accurate, only 8.8 per cent of retailers and retail employees have been trained through formal training. In addition, the training is not current; the vast majority of the individuals who are certified to be "trained" went through this training in the late 1990s or shortly thereafter.

While BCLC also sends out training tips and reminders to lottery retailers in the form of messages on the lottery terminal and articles in retailer newsletters, it is not possible to be confident that every individual who works on lottery terminals in British Columbia is being properly trained. We would like to see BCLC certify that all individuals who work on lottery terminals have been formally trained, and track the training dates of individuals so that training can be updated on a regular basis. BCLC has advised that over the next six months, it will be developing new training materials including a DVD to be delivered by Sales Representatives and a web-based training course.

Progressive Discipline (Enforcement)

BCLC advises that it uses a progressive enforcement model of discipline. In other words, depending on the severity of the offence and whether the retailer has engaged in this conduct in the past, varying degrees of discipline are imposed, ranging from a verbal warning to termination of the retailer's contract. The retailers' contract with BCLC states that a breach of the contract by the retailer can lead to a suspension or termination of the contract.

We reviewed numerous BCLC Security investigation files and concluded that the progressive enforcement used by BCLC was weak and did not act as an adequate deterrent to retailer fraud.

BCLC does not have a written guideline in place to assist Security investigators in deciding what type of action to take in a certain circumstance. It is left to the discretion of the investigator, which leads to an inconsistent application of the progressive discipline model.

In a three year period (between January 1, 2004, and December 31, 2006), BCLC Security opened 2,862 security investigation files. BCLC reported that in 770 of the files, some type of follow up action was taken in regard to the retailer. However, of the 770, only 26 disciplinary actions were imposed on retailers. BCLC advised that these 26 actions were composed of two retailer contract terminations, three employee terminations, three verbal warnings, and 18 warning letters. However, only 10 of these enforcement actions were taken prior to the Fifth Estate program (two retailer contract terminations, three employee terminations, three verbal warnings and two written warnings). The other 16 actions were taken between November 2006 and December 2006.

Of the three employee terminations, only one termination was clearly related to the potential fraud incident. In the second termination, the retailer called BCLC Security almost two months after the file was concluded and stated that the employee had been terminated (the notes do not indicate the reason for the termination). On the third file, the last file note indicated that the retailer advised that the employee would be terminated. No follow up was done to ensure this occurred.

In regard to the verbal warnings, one was not related to a validation issue (it was about a retailer failing to sell tickets with low wagers), the second verbal warning was given by Consumer Services or Sales staff, not BCLC Security, and the third one did not warn the retailer at all.

The rest of the actions taken (744) were dealt with in a non-disciplinary manner. In other words, while BCLC Security identified a retailer problem, it left it up to BCLC Sales Representatives to speak with the retailer and outline the proper validation procedures. As noted above, the Sales Representatives' job

description does not include monitoring or enforcing compliance. Sending the Sales Representative to discuss the issue with the retailer does not set the correct tone in terms of deterring the action in the future. A member of the Security department should be sent to give a verbal warning to the retailer or put the warning in writing. In our review of security files, we also noticed that in the majority of cases where the follow up was left to the Sales Representative, there was no update made on the file as to whether the follow up was completed and whether the action had been corrected.

For example, BCLC Security investigated a complaint from a woman who said that she was only paid $1 when she took three tickets in for validation, and was not given her validation slips or original tickets. When she argued with the retailer, he gave her the additional $10 she was owed. BCLC Security's conclusion was that this incident was a "contract violation" but no sanction was imposed. The file notes state that the Sales Representative planned to talk to the retailer, but there is no note on file regarding any follow up action by the Sales Representative.

While the retailers' lottery agreement with BCLC includes the possibility of suspending the retailers' lottery operations, BCLC did not utilize this enforcement action between January 1, 2004 and December 31, 2006. In our opinion, suspending a retailers' contract would be a useful step in the progressive enforcement model. As well, BCLC should consider imposing fines on the retailer and prohibiting the retailer from playing lottery games for a certain length of time.

Finally, BCLC does not analyze trends in the security complaint files. This may be partly because of the complaint tracking technology used by the Security department and its inability to run useful reports on demand. However, as customer complaints are currently the only real method by which BCLC is alerted to potential retailer impropriety, it is necessary for BCLC to have an adequate tracking system and to analyze trends. If there are trends, BCLC must follow up to make the changes needed to correct the problem on a broader scale, instead of just responding to the complaints on an individual basis.

It is clear that BCLC does not have a proactive process to ensure compliance with its validation procedures and to look for potential opportunities for retailer impropriety. Instead, BCLC takes a reactive approach, a customer complaint driven approach. In other words, BCLC relies on customers to determine that there may be a problem and then to report it to BCLC. Of course, the problem with this approach is that customers are the ones being duped – if they do not know they are being taken advantage of, why would they complain?

This reactive approach to validation security is in direct contrast with the "front-end" security that BCLC has in place regarding instant ticket production. There is a complex, thorough, and impressive system in place to ensure that the location of the winning instant tickets are not known to the individuals who print, sort, package and deliver the tickets. Of course, this system protects BCLC's revenues. In contrast, potential retailer impropriety in regard to validation processes affects the players' bottom line, not BCLC's.

BCLC Recent Changes

BCLC advised that its Sales Division and Security personnel started working on a "Retailer Corrective Action" policy in April 2007.

It appears that, after the Fifth Estate program, BCLC has attempted to improve its progressive enforcement model. In November and December of 2006, for example, BCLC issued 16 written warnings to retailers (compared to only two written warnings in the past three years). However, we noted that the warning letters continued to be signed by the Sales Department, not BCLC Security until April 14, 2007.

As well, BCLC Security personnel have, in a number of files, visited the retailer "undercover" to test the retailer's compliance with BCLC policies and procedures and since January 1, 2007, have imposed seven day lottery sales suspensions on retailers who are found in breach of their lottery agreement (most commonly, for playing lottery games while they are on shift). BCLC has also initiated more termination actions since January 1, 2007, than retailer terminations in the past three years.

Ombudsman Findings

5. BCLC's internal watchdog procedures were inadequate for the purpose of reliably identifying suspicious BCLC retailer and BCLC retailer employee activity.

6. BCLC's security and enforcement procedures relating to retailer impropriety were insufficient and inconsistently applied.

Ombudsman Recommendations

11. BCLC modify its internal watchdog system to ensure that multiple checks of the same ticket, multiple attempts to validate a scratch and win or similar product, and any other suspicious activity be identified, investigated, reported upon, acted upon and tracked for trends.

12. BCLC develop an incentive program for BCLC retailers and BCLC retailer employees to identify gaps in post-point of sale security procedures and report them to BCLC.

13. Where BCLC reasonably suspects that a BCLC retailer or BCLC retailer employee or any other person has committed a criminal offence, BCLC promptly pass on this information to the appropriate police force.

14. BCLC have a clear, consistently enforced, process of progressive discipline for BCLC retailers and BCLC retailer employees for breaches of post-point of sale security including where appropriate termination of the BCLC contract.

15. BCLC certify all persons operating its machinery have been properly trained to do so.

16. BCLC conduct regular, random and comprehensive audits of BCLC retail outlets to ensure compliance with its post-point of sale policies and take progressive disciplinary action for any breaches.

17. BCLC develop an incentive program for purchasers/customers to promptly report deficiencies at its retail outlets.

Investigation

Complaints Process

BCLC's most recent annual report states that BCLC is a "dynamic, player-focused company." BCLC's vision is: "As a player-focused organization, BCLC is committed to providing fun and entertaining lottery games that appeal to our customers."

For a player-focused organization, we were surprised to discover that BCLC paid such little attention to the complaints and concerns its customers were bringing forward about potential retailer impropriety. One of BCLC's main points when faced with the Fifth Estate program and the Vancouver Sun's FOI request was that it could not have a problem with retailer impropriety as it had received so few complaints from customers about these types of issues.

Where did the Calls go?

In the backgrounder on retailer wins document, BCLC states:

> **Q. What typically triggers a BCLC investigation?**
>
> A. Any suspicious activity, including suspected retailer fraud, is thoroughly investigated by BCLC Corporate Security and appropriate action is taken.
>
> An investigation is conducted any time BCLC receives a complaint from a player... .
>
> We encourage players to contact BCLC if they have concerns. The Corporation operates a Consumer Services toll-free phone line, offers a feedback section on our website and can be contacted by regular mail.

Similarly, BCLC advised us at the start of our investigation that all customer concerns relating to potential retailer impropriety are forwarded to the Security department for investigation. We can confidently say that this statement was incorrect.

The starting point is the advertising of the BCLC complaints process. The back of every BCLC lottery ticket states: "BCLC Consumer Services Toll Free Number 1-866-815-0222." However, this wording does not invite players to contact BCLC with questions, concerns or complaints about suspected retailer impropriety. Further, the BCLC website, while containing a significant amount of information, does not include a "How to make a complaint" section.

We heard from a number of complainants that they had called BCLC with a specific concern about a retailer and BCLC did not respond in a helpful manner.

For example, a woman contacted us and explained that she had called BCLC about her complaint that a retailer refused to give her a validation slip or let her see her tickets that the retailer had thrown in the garbage. She said she returned the next day to discuss the matter further and at this point the retailer gave her $1. The woman said that she called BCLC and told the BCLC representative that she could identify the individual whom she dealt with at the lottery outlet. She said that BCLC advised her that the retailer could just send a friend or relative to pick up the prize if the retailer had stolen her ticket, and there was

nothing that could be done for her. When we asked BCLC to search its Consumer Services database, it did not have a record of her call. After reviewing four months of phone logs, we determined that it was common for individuals not to be asked their name. This may explain why BCLC could not find a record of this phone call.

Another woman contacted us and stated that she was concerned with a certain retailer's practice of folding the corners of tickets over after validating them and putting them in a box behind the counter. The woman says that BCLC originally advised that nothing could be done unless she was able to provide the name of the employee she dealt with. The woman therefore returned to the store and found out the name of the employee and called BCLC back to provide the name. The woman said she did not hear back from BCLC. Again, when we asked BCLC about this woman, we were told that it did not have a record of either of her phone calls.

A third individual contacted our office with her complaint that she felt a certain retailer was "palming" tickets. She advised that when she called BCLC, she was told that all BCLC could do was teach the retailer how to use the lottery terminal. Again, BCLC does not have a record of this phone call.

We reviewed a phone log in which a woman called on behalf of her father who had purchased a lottery ticket two months prior and thought the PDU indicated a win of $15,000. The woman asked BCLC if it could confirm that the retailer did not cash in a large win for himself during this timeframe. The Consumer Services representative advised that retailers go through a "stringent interview process when they come forward with a winning ticket." The woman was advised "that if the ticket was not signed there is no way of proving that any ticket was her father's." The Consumer Services representative said that the Sales Representative would be asked to review proper validation procedures with the retailer. There is no indication on the phone log that this follow up occurred.

Another phone log involved a player who was concerned that he should have been paid out $200 on a scratch and win ticket, not $3. The phone log reads:

> I told consumer that validation is always correct. Consumer wants to go back to retailer to get [ticket]. I told him that the [ticket] is probably in the garbage and if he manages to get the [ticket] and give back his $3 win, he could send it into [BCLC] with a note explaining his concerns.

During our review of Consumer Services' phone logs, we noticed a common theme – BCLC representatives telling players who felt that they may have been the victim of retailer fraud that losing an unsigned ticket is like losing cash (the implication being that BCLC will not look into allegations of retailer impropriety as it is the customer's fault). For example, one phone log concerned a caller who felt that he had a $6 million ticket stolen by a retailer six months previously. The caller was advised:

> If he had a complaint of the same nature again to contact us ASAP. As well, advised that if his name was not on the [ticket] and it had been lost, it was like losing cash.

We also found examples of customer calls about retailer impropriety that were dealt with in some way by BCLC, but not by BCLC Security as BCLC advised us was the practice. For example, we have a complainant whose complaint that he was the victim of a "palming" was dealt with by Consumer Services. The Consumer Services staff member ran a report of the gaming system transactions during the timeframe in

question and concluded that the complainant had not been victimized. As a result of our investigation into this complainant's circumstances, a number of additional questions arose and BCLC Security undertook a more extensive investigation (the type of investigation that should have been done for this player originally). Another example is the man whose complaint about a retailer was dealt with in writing by Prize Payout staff, not Security staff. When we asked BCLC for all files related to this individual, BCLC said that it could not find any files even though we had a copy of a letter sent to the complainant from Prize Payout staff. Finally, there is the player who called into BCLC and complained that he did not receive a validation slip at a certain retailer. Consumer Services ran a report and advised the player that there were no big winners during the timeframe in question. In all of these cases, Security was not notified, Security did not have a file in regard to the incident and no one followed up on the incidents.

We were interested in how many calls received by Consumer Services staff that related to complaints about retailers, were actually passed on to Security personnel. As such, we asked BCLC to provide us with information on how many calls received by Consumer Services between January 1, 2005, and October 27, 2006, were escalated to Security. BCLC was unable to provide us with this information. It stated that its tracking system was not set up to provide this type of information. We also noted that a manual review of the phone logs would not provide the requested information because, while Consumer Services was supposed to forward an e-mail to Security when a retailer impropriety complaint was received, these e-mails were not pasted into the phone log.

As a result of BCLC's inability to provide this information, we did our own research on three sample months. We reviewed all of the phone logs (of calls to Consumer Services) and all of the security files opened in this same time frame. In the June 2005 sample, we found 23 phone calls clearly identifying a security issue that were *not* escalated to security. Of these, eight did not have names recorded in the phone log and one person was told that "they don't transfer calls" when he demanded to be put through to security. Three security issues were escalated to Security. Seven phone calls indicated a possible security issue – not enough information was taken by Consumer Services to determine the nature of the complaint with certainty. We concluded that 88 -91 per cent of the security-related phone calls that came into Consumer Services in June 2005 were not escalated to BCLC Security.

In the February 2006 sample, we found 16 phone calls that clearly identified a security issue and none of them were escalated to security. Of these, Consumer Services did not obtain a name from two of the individuals. In summary, in this sample month, 100 per cent of the calls that should have been escalated to Security were not.

In the October 2006 sample, we found 25 phone calls clearly identifying a security issue that were *not* escalated to Security. Of these, 12 did not have names recorded in the phone log. Seven security issues were escalated to Security. Two phone calls indicated a possible security issue – not enough information was taken by Consumer Services to determine the nature of the complaint with certainty. Therefore, we concluded that 78 -79 per cent of the security-related phone calls that came into Consumer Services in October 2006 were not escalated to BCLC Security.

Security investigation process

For those complaints that made it through to the Security department, what was the process the security investigators used to investigate the complaints about retailer impropriety?

While we acknowledge that the security investigators are highly trained and competent investigators (many of them from policing backgrounds), one of our concerns is that the Security department does not have any written guidelines or training manuals outlining the process to be used to investigate consumer (or other) complaints. As such, there will be an inconsistent application of the process.

Database Search Capability

Unless the player can provide the exact date and time of the suspected lottery fraud incident (or the validation slip/control number of the transaction), it is highly unlikely that Security personnel will run a search of the gaming system to verify what transpired. This is a critical flaw in the investigative process.

For example, we have two complainants who came to our office with the same complaint – that they suspected the retailer only paid them a portion of the win and kept the remainder. In one case, the complainant was paid $100 and in the other case, the complainant was paid $500. Both complainants were suspicious that they were paid an even amount in a game which pays a percentage of a jackpot. Even BCLC acknowledged that, because the winners share a percentage of the jackpot, it is unlikely that the winning amount would be exactly $100 or exactly $500. At the very least, this should raise suspicions.

Neither of the complainants were given validation slips, neither knew the numbers played, and neither could identify with certainty the exact date of the transaction. They could narrow it down to approximately a three month period. Both complainants said that the PDU did not assist them (either it was not there or it was not visible).

The type of investigation done by BCLC Security was the same in both cases. Specifically, BCLC looked up the contact names on its retailer database for the validating retailer and confirmed that no one with these names redeemed a prize $10,000 or greater. Second, BCLC was able to search to see if any prizes $10,000 or greater had been sold from the selling retailer location. In other words, BCLC was able to reassure the complainants that the complainants' tickets were not worth $10,000 or greater and the BCLC retailer and BCLC retailer employees listed on their contact list did not redeem a $10,000 or greater prize recently.

What are the gaps in this type of investigation? The obvious flaw is that, because BCLC does not track wins under $10,000, BCLC is unable to assure the complainant that a ticket was not worth up to $9,999 and claimed by the BCLC retailer or BCLC retailer employee. As well, the retailer database is not complete and therefore there is no assurance that a retailer employee at the validation location did not redeem the prize. Other than using the (incomplete) retailer database, BCLC does not routinely ask the complainant to identify the retailer employee in question who redeemed the ticket so that BCLC could interview this person.

We asked BCLC why they cannot run a search to confirm that there was a valid $100 or $500 validation at the retail location in the timeframe in question. At least if the complainant knew that a $100 or $500 win was validly won, this may help alleviate their concerns. BCLC's response was that there is no easy computer

search that can be run to determine this information. The search would have to be done manually (i.e. print out all transactions in the three month time frame and manually review them for $500 or $100 wins). BCLC's position is that this type of search is too onerous given the volume of transactions at lottery locations every day (e.g. a one hour print-out of all transactions at a busy retailer was 34 pages in length). BCLC further stated that this type of information is only stored in an easily readable format for 18 months. If the complaint is more than 18 months old, BCLC says that it would take 15 minutes to download one day of transactions from a lottery retailer and then a substantial amount of time for the computer systems personnel to convert the data to a readable format.

In order to do thorough investigations, BCLC must be able to perform these types of searches.

At our request, BCLC was able to check and determine that there were four $100 wins in the timeframe of the complaint relating to the $100 prize. BCLC is still checking its records regarding the $500 win complaint.

Relying on Others

We reviewed a number of examples in which BCLC Security relied on the retailer to conduct part of the investigation. Given that the retailer is the party being investigated, we do not find it appropriate for the retailer to be doing part of the investigation. For example, in two files, the retailer reviewed its videotape surveillance to look for evidence of wrongdoing instead of BCLC reviewing the information. In one of these cases, the Sales Representative, not BCLC Security, interviewed the retailer. In another two files, the retailer performed the interviews or otherwise conducted part of the investigation instead of BCLC Security.

As well, we reviewed a number of examples in which BCLC did not report fraudulent activity to the police. Instead, BCLC encouraged the player to call the police. We do not agree that it should be left up to the player to report the incident to the police.

In one case, the file notes indicated that the "writer told him to call the police but he was satisfied that BCLC would discipline the retailer." In the other case, the player did not want to call the police; BCLC did not report the matter to the authorities even though it had concluded that "it appears evident that the clerk had intentionally kept the prizes for his personal gain … " In this case, BCLC did not even discipline the retailer or put anything in writing to the retailer; instead, BCLC left it up to the retailer to deal with the employee. The retailer indicated that he would deal with the employee and "[would] most likely terminate the employee if evidence strongly suggest[ed] wrongdoing." No follow up was done on the file to determine whether the employee was ever terminated.

Taking the Retailers' Side

Our review of security files prior to the Fifth Estate program indicates that BCLC Security often resolved doubt in favour of the retailer. Further, in cases where impropriety was found, BCLC did not conduct audits or checks to follow up to ensure that the impropriety would not reoccur.

For example, a 2004 security file involved a complainant who said that he validated an Extra ticket knowing that he matched three numbers, winning $1,000. The retailer, however, told him it was a $10 winner and gave him a $10 bill. The retailer did not give him the validation slip or the original ticket back.

The complainant challenged the retailer to show him the validation slip. The retailer then said that he had made a mistake, acknowledged the $1,000 win and said that he did not have the money to pay out the $1,000 win. The retailer directed the complainant to go to a BCLC office to redeem the prize.

When BCLC Security investigated, it confirmed that the retailer had checked the ticket on the lottery terminal and the win of $1,000 had appeared. The retailer denied trying to pay the complainant $10. BCLC spoke again with the complainant who was reluctant to put the complaint in writing because he was fearful of retaliation by the retailer. BCLC noted: "At present I have no corroborating evidence to confirm the allegation, however, I have no reason to doubt [the complainant's] allegation." BCLC recorded that it was giving the retailer a verbal warning,

However the notes of the meeting with the retailer indicate:

> I reviewed the complaint with [the retailer] and what action I have taken. [The retailer] was advised by me that no penalties will be taken … regarding this incident and as far as I was concerned nothing further will be done as the complainant does not wish to pursue this any further.

BCLC recorded the outcome of this file as a verbal warning but we question whether this is an accurate description of the outcome.

In another case, the complainant watched the Keno board and knew that he had matched five numbers, winning $400. The player gave the ticket to his wife to redeem in order to see the look of surprise on her face. As he watched her redeem the ticket, he was shocked to see the retail employee tell her that the ticket was not a winner and rip the ticket in half. The man confronted the employee and demanded that the ticket be returned to him. The employee then paid him the $400 and said that the lottery machine must have been broken but he had insurance to cover these situations. The man contacted BCLC Security and BCLC Security concluded that the employee attempted to "deceive" the customer and "should be terminated immediately." It turned out that the employee was the son of the retail owner, and the owner promised that his son would no longer work at the lottery terminal. As such, BCLC gave the retailer a written warning (only). The written warning, sent by the Sales Department, stated that the retailer's lottery agreement would be terminated if there was another breach of BCLC's validation procedures. It does not appear that BCLC ever followed up to determine if the son had stopped working at the outlet or whether the retailer had ever breached the validation procedures again.

Characterization of Security Files

One would think that BCLC had a process in place that it could rely on to accurately pick out the number of potential retailer fraud files in response to the FOI request and to GPEB. That was not the case.

The Nature of the Incident

As the result of the Vancouver Sun FOI request, BCLC released information on 74 security files from the applicable timeframe (January 1, 2005 – October 27, 2006). BCLC used this number to support its position that it did not have a problem with retailer fraud (i.e. the low number of complaints shows that there is no problem).

Investigation

What exactly do these 74 files represent? The answer given by BCLC changes depending on which document you read. The FOI request asked for "a copy of all investigations into fraudulent lottery claims since January 1, 2005." On one of the records released in response to the FOI request (and placed on BCLC's website), the title of the document is "Executive Summary of Investigations January 1, 2005 to October 27, 2006." BCLC states:

TOTAL FILES:	**74**
Customer Mistaken:	24
Unintentional Error:	30
Inconclusive Dispute:	15
Retailer/Retailer Employee Impropriety:	4
Still Under Investigation:	1

This document suggests that 74 is the total number of investigations done by BCLC in this timeframe. This is not accurate. Our investigation revealed that BCLC opened approximately 900 investigative files in 2005 and 980 in 2006.

In the Fact Sheet document released as part of the FOI request (and placed on BCLC's website), BCLC states:

> **Customer Complaints Received and Investigated**
>
> A total of 74 customer complaints were received and investigated in the 22 month period.

This document suggests that BCLC only received and investigated 74 customer complaints in the 22 month period. Again, this is certainly not accurate.

In the backgrounder on retailer wins document on BCLC's website, BCLC states:

> The vast majority of BCLC's approximately 4,400 retailers are conducting business in an honest fashion and are providing good customer service. Over 22 months, retailers validated more than 300 million lottery tickets and there were only 74 validations that resulted in investigations.

This document makes it sound as if only 74 customers with validation issues came to BCLC in the applicable timeframe and had the complaints investigated. Again, this is not correct. In fact, 1,632 security investigation files were opened between January 1, 2005 and October 27, 2006. Of these, 134 were classified as validation issues (and many more could have been classified this way).

BCLC's position is that 74 security files were "all the investigations into fraudulent lottery complaints since January 1, 2005." We asked BCLC to describe how it came to the 74 number.

BCLC explained that when BCLC Security personnel open a security file, the nature of the incident is classified into categories and subcategories. There are 38 categories, including categories such as "Tickets," "Validations," "Theft," and "Draws." In order to identify the files involving retailer fraudulent lottery claims, BCLC's starting point was the 1,632 security files opened January 1, 2005 to October 27, 2006. Of these, it manually read through the ones in six categories: "Contract Violation," "Customer Service Issues,"

"Payment," "Policies and Procedures," "Tickets" and "Validation" (totalling 775 files). BCLC assumed that the fraudulent lottery claim files would be in one of these categories. BCLC did not look at the other 32 categories (totalling an additional 857 files).

There is no category for fraudulent lottery complaints. As such, these types of files get placed into many different categories. BCLC acknowledged that because of the overlap of the categories, the Security investigators may choose different categories to describe the same complaint.

In order to determine whether BCLC's count of 74 files was accurate, we reviewed 10 per cent of the 1,632 security files opened between January 1, 2005 and October 27, 2006 (the FOI timeframe). In our view the request for a copy of all investigations into fraudulent lottery claims included all security files relating to potential retailer impropriety/fraud. Our review of 163 files was intended to determine how many should have been flagged as potential retailer impropriety/fraud files. Our conclusion was that there were 19 files within the 163 that should have been classified as potential retailer impropriety/fraud complaints. See Appendix H for a summary of the 19 files. BCLC only picked out six of these 19 files (in other words, six of these made it into the 74).

Therefore, based on our 10 per cent sample, we concluded that BCLC should have, out of the 1,632 security files, identified approximately 190 files that involved some type of retailer impropriety/fraud. Reporting that there were only 74 was inaccurate and the resulting conclusion drawn that there was no significant problem was misleading.

While BCLC only looked through the six categories outlined above, a number of the files we flagged as alleged retailer impropriety files were classified under different categories (such as "Cancelled Tickets," "Information/Enquiries," "Assistance To," "Theft," and "Customer Service.") This raises two issues. BCLC should have been looking at more than six categories to determine the number of retailer impropriety files; also, there should be a separate category for alleged retailer impropriety so that these files are not scattered and untrackable.

The Outcome of the Incident

In the document titled "Executive Summary of Investigations January 1, 2005 to October 27, 2006" released as part of the FOI request (and placed on BCLC's website), the outcome of the 74 complaints were characterized as one of:

- Customer Mistaken
- Unintentional Error
- Inconclusive Dispute
- Retailer/Retailer Employee Impropriety
- Still Under Investigation

Investigations

The backgrounder on retailer wins states:

> Our investigations found that 93.2 per cent of the complaints were customer mistakes, unintentional errors or inconclusive cases. Customer mistakes accounted for 24 of the investigations, unintentional errors for 30 and inconclusive disputes for 15. Four complaints of retailer impropriety were investigated and appropriate action taken.
>
> This confirms that overall our systems, policies, procedures and training are in line with the highest industry standards. We continue to review these processes to ensure that they are appropriate for the marketplace and will implement improvements as required.

The point that BCLC was making was that less than seven per cent of the 74 complaint files involved proven retailer impropriety. We reviewed a number of the 74 complaint files in order to determine whether BCLC's characterization of the outcomes were accurate and we have concluded that in many cases, the characterization was not accurate.

For example, one complainant contacted BCLC with her concern that a retailer had tried to keep her winning ticket. She explained that she took three tickets in for validation, knowing that one of them was a $10 winner. The retailer gave her $1 and did not return her validation slips or her original tickets. When the player questioned the retailer, he looked through the garbage and told her that he could not find the ticket. After arguing with the retailer, he paid her an additional $10. BCLC Security ran a report and confirmed that there had been a $10 validation and a $1 validation. BCLC contacted the complainant and assured her that she had received the correct prize. The file was then closed after Security asked the Sales Representative to speak with the retailer about proper validation procedures. No follow up was noted on the file.

It seems that this retailer was attempting to keep the player's $10 win and only pay her the $1 win. However, BCLC seemed to be satisfied that the winner (after arguing with the retailer) eventually received her correct payment. BCLC Security did not follow up with the retailer regarding this possible fraud attempt. BCLC characterized this complaint as "Unintentional Error" in the FOI documents, even though it was noted in the file that there was a contract violation. The file was reported to GPEB during GPEB's investigation as "Clerical Error." The file should have been reported as a potential retailer fraud case.

In another case, the complainant said that the retailer ripped her ticket, threw it in the garbage, and advised the player that it was not a winner. A customer in line behind the complainant noticed that the screen showed that the ticket was a $2,857 winner. The player demanded the ticket back. When the player took the ticket to BCLC, Prize Payout staff (not Security) confirmed that the ticket won $2,857 and the retailer had queried the ticket and would have known it was a $2,857 winner. The retailer then answered "no" to the question on the lottery terminal, "Do you have enough funds to pay the prize?" As a result, the jingle would not have played. BCLC paid the player the $2,857 and left it up to the Sales Representative to discuss with the retailer how to improve training for the staff. No action was taken by Security other than to record the incident. No follow up from the Sales Representative was noted on the file. No discipline was given to the retailer. This case was reported to GPEB during GPEB's investigation as "Clerical Error" and in the FOI document as "Inconclusive."

The backgrounder on retailer wins that was released as part of the FOI request (and placed on BCLC's website) stated:

> **Q: What types of complaints did you categorize as 'inconclusive'?**
>
> A: In many instances BCLC investigators were unable to obtain the basic necessary information to adequately determine an appropriate action. For example, in order to conduct a thorough investigation, BCLC should be provided with the game name, retail location, year of the occurrence or other details that would form the basis for proceeding. In all cases, however, BCLC interviewed the player and, when known, the retailer or 'witnesses' in an attempt to gather the facts necessary to proceed.

Given this definition, the $2,857 file should not have been characterized as "Inconclusive" or "Clerical Error." It should have been flagged as a potential retailer fraud case.

Another example is a woman who took her scratch and win ticket into a retailer to be validated, and was told that it was not a winner. The clerk gave her the ticket back but not the validation slip. The player later noticed that the ticket was a $50 winner and called BCLC. BCLC Security called the retailer and left a message with an employee. When BCLC Security spoke with the retailer manager, the manager said that he would look into it. The manager called back and confirmed that the cash was over by $50 on that day and that he would talk to the employee about the situation (the same employee who had answered the phone when BCLC Security originally called). BCLC Security decided to close the file without interviewing the employee. BCLC characterized the case as "Unintentional Error" in the FOI documents and reported it to GPEB during GPEB's investigation as "Clerical Error." How could BCLC Security conclude that this employee had inadvertently not paid the player the $50 without even interviewing him?

Another example exists in which a complainant was told the ticket was not a winner and was not given a validation slip or the ticket back. The complainant found out that the ticket was a $5 winner after demanding the validation slip. Even though the player received the $5 from the retailer, a complaint was made to BCLC. BCLC characterized this file as "Inconclusive" in the FOI documentation and as "Unfounded" to GPEB during GPEB's investigation.

We also noted a number of similar scenarios in the security files that were characterized inconsistently in the FOI records. For example, sometimes a situation where a retailer failed to return a validation slip (but the customer was paid the correct amount) was reported as an "Unintentional Error" and sometimes as "Customer Mistaken." Another scenario dealt with inconsistently was where a retailer failed to give a player an exchange ticket for future draws; in some circumstances, this scenario was characterized as "Unintentional Error" and sometimes "Inconclusive."

Reporting Incidents to the Gaming Policy and Enforcement Branch

Section 86 of the *Gaming Control Act* states that BCLC must notify GPEB of any conduct, activity or incident occurring in connection with a lottery scheme that BCLC considers involves the commission of an offence under the *Criminal Code*, or the commission of an offence under the *Gaming Control Act* or Regulations.

In 2003, GPEB issued guidelines to BCLC in regard to its reporting requirements. The guidelines stated:

> Section 86(2) of the *Gaming Control Act* requires the British Columbia Lottery Corporation to notify the Branch, without delay, about any conduct, activity, or incident occurring in connection with a lottery scheme of horse racing, (including incidents at a gaming facility or in relation to any of the Corporation's lottery products) that may be considered contrary to the *Criminal Code* of Canada, the *Gaming Control Act* or *Gaming Control Regulations*, or that may affect the integrity of gaming or horse racing. This includes but is not limited to:
>
> a. Cheating at Play;
> b. Theft affecting the integrity of the game (thefts from the house or by a gaming worker);
> c. Thefts affecting the integrity of the sale (thefts of BC Lottery Corporation lottery products from the Corporation or the retailers);
> d. Fraud;
> e. Money Laundering;
> f. Persons suspected of passing counterfeit currency;
> g. Loan Sharking;
> h. Robbery;
> i. Assault;
> j. Threats against or intimidation of gaming employees;
> k. Unauthorized lottery schemes
> l. Unauthorized gaming by minors;
> m. Unregistered gaming workers; and
> n. Unregistered service providers.

A November 22, 2006, guideline issued by GPEB, stated:

Lottery Tickets/Retailers:

> a. BCLC will notify, without delay, the GPEB, Investigation Division Regional Office via Section 86 Report, any real or suspected conduct, activity or incidents that may affect the integrity of gaming, to provide specificity, but not limited to:
>
> - any alleged fraud or theft by a Lottery Retailer/Retail employee;
> - prize claims by an individual with an alleged stolen lottery ticket;
> - any large scale forgery of lottery tickets;
> - theft of $2,000 or more worth of lottery tickets from a Lottery Retailer;
> - any theft or wrongdoing in relation to lottery products from the BCLC inventory before the lottery product is distributed to Lottery Retailers.

Despite BCLC's security investigations since 2003 into a number of retailer impropriety allegations which could have been construed as attempts at fraud, BCLC did not report any incidents involving potential retailer fraud to GPEB under section 86 until November 2006. For example, none of the 74 cases outlined in the FOI documents were reported to GPEB until GPEB requested them as part of its investigation in late 2006 (and even then, only a summary of the cases was provided, not the entire file).

BCLC's response was that it had worked out a reasonable interpretation of the section 86 reporting requirement with GPEB, which only included reporting incidents over $2,000, however we note that this interpretation is not supported by the above guidelines. GPEB specifically denied advising BCLC that it was not required to report potential fraudulent incidents under $2,000.

At the conclusion of GPEB's investigation of BCLC processes in December 2006, one of GPEB's action items was for the Assistant Deputy Minister to reconfirm the requirement for BCLC to make reports under Section 86 of the *Gaming Control Act*. Clearly, GPEB had concluded that BCLC had not been making the appropriate reports under Section 86.

BCLC Recent Changes

Despite what BCLC had told us at the start of our investigation, BCLC acknowledged that up until the time of the Fifth Estate program, Consumer Services' staff used their discretion to only forward some calls regarding potential retailer impropriety to Security. After the Fifth Estate program, BCLC advised that it directed Consumer Services to direct *all* "integrity issues" to Security.

We are pleased to report that in our analysis of February 2007 as a sample month, 100 per cent of security-related calls were escalated to Security.

While there has certainly been a marked improvement in this area, we were advised that there is still no guideline or training manual in place to guide Consumer Services staff in their determination as to whether an issue is an "integrity issue." In order to continue passing on appropriate files to the Security department, BCLC should implement a training and/or policy document to assist Consumer Services' staff in their determination of whether an issue is an "integrity issue," or not.

BCLC also advised us that Consumer Services implemented a new call tracking system in early April 2007. This system consolidates four call systems previously used by different BCLC departments: Consumer Services, Casino/Bingo Systems, Lottery Hotline and IT Help Desk. It allows for cross-referencing of calls and files between the different departments, and allows another department to follow up on the call. BCLC also advised that the system allows the history of the retailer to come up on the screen when a retail outlet name is entered. We are hopeful that the new system will address the complaint tracking issues that we identified during our investigation.

We were recently advised by BCLC that in April 2007 it revised its characterization of security files to include retailer impropriety categories.

In regard to reporting incidents to GPEB, since November 2006, BCLC has been making numerous Section 86 reports to GPEB in regard to allegations of retailer impropriety.

Ombudsman Findings

7. BCLC did not have reliable procecedures for recording, tracking and responding to purchaser/customer complaints.

8. BCLC did not organize its data collection, analysis and retention to facilitate responses to those purchaser/customer complaints.

Ombudsman Recommendations

18. BCLC create a written policy for dealing with all customer complaints about post-point of sale security issues, including clear categories for identifying and tracking those customer complaints; a requirement that all those customer complaints be referred to and investigated by security; a process for analysing those complaints and tracking trends; and a requirement that the results of the process be reported on annually to the Chief Executive Officer, the Board of BCLC and the public.

Did BCLC Know About the Problems?

As part of our investigation we requested copies of all documentation for the past five years relating to the potential for retailer impropriety in the possession of the BCLC Board and the Senior Management/Executive of BCLC.

The correspondence that we reviewed included descriptions of numerous public complaints, alleging retailer misconduct in the lottery ticket validation process back to 2002.[41] The public complaints involved situations where the player felt that the lottery retailer had not returned the validation slip or had provided the player with the wrong slip and in both cases the retailer claimed the prize for himself or herself or only paid a small portion of the prize and kept the rest.

We also reviewed internal documents that showed that BCLC knew that from January 1, 2001 to October 24, 2002, there were 491 files characterized as "Payment" or "Validation" complaints. Of the 491 complaints, BCLC acknowledged and concluded that 15 had "varying degrees of evidence to indicate that the retailer or the retail clerk appears to or may have attempted to commit a theft from the customer." At that time, BCLC's review of those complaints resulted in termination of four retail agreements, termination of eight retail employees by BCLC retailers, and three retailers being provided written warnings by BCLC.

It is clear that the BCLC Board and Senior Executive were aware, at least back to 2002, of public complaints suggesting there were deficiencies in its prize payout process policies, procedures and practices that were meant to ensure the rightful owner of a winning ticket was paid the correct amount.

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[41] For example, a complaint to BCLC in 2002 alleged that a lottery retailer attempted to defraud a player by suggesting the ticket was a non-winner and then keeping the $400 prize for himself or herself.

Ombudsman Recommendations

19. BCLC establish a position at the senior management level with responsibility for all aspects of post-point of sale purchaser/customer prize payout security of lottery products.

20. BCLC implement all GPEB December 2006 recommendations promptly.

21. BCLC be open to receiving complaints from players who feel that they were the victim of retailer impropriety. BCLC to investigate the complaints fully to determine if substantiated; if so, BCLC should be willing to reimburse the player.

22. BCLC review its records including phone logs and security records to determine if there are any complaints where BCLC can improve its response or investigation.

23. BCLC Security review of all multiple retailer winners to confirm that the prize pay outs are valid; if suspicious circumstance are found, BCLC to report to the appropriate authorities.

Background

The provincial government, by law, is responsible for provincial gaming and, since 1985, has used the British Columbia Lottery Corporation (BCLC) as its agent to conduct and manage gaming, including lottery schemes, casinos and horseracing.

Billions of dollars have flowed from BCLC-run lotteries and other gaming activities to provincial coffers over the years. While some of the money is paid out to support various health initiatives, charitable and sporting activities, the largest percentage in recent years has gone into consolidated revenue. In 2002/2003, BCLC reported total revenues of $1.8 billion. It paid out $650 million in prizes and $663.2 million to the provincial government. The provincial government put $488.8 million of that money into consolidated revenue. In 2005/2006 BCLC reported $2.26 billion in total revenues. It paid out $641.5 million in prizes and $914.4 million to the provincial government. The provincial government put $556.4 million of that money into consolidated revenue.

Various methods and mechanisms have been used by successive provincial governments to regulate and oversee legal gaming in British Columbia. The most recent significant reorganization occurred in 2002 with the passage of the *Gaming Control Act* (the *Act*). The *Act* continues BCLC as a provincial corporation, establishes it as an agent of the government, and makes it responsible for the conduct and management of gaming on behalf of the government. The *Act* also continues the Gaming Policy and Enforcement Branch as the office of the provincial government responsible for the overall integrity of gaming, including responsibility for BCLC.

The *Act* gives the Minister responsible the power to issue written directives to BCLC on matters of general policy and BCLC must comply with those directives. It also gives the General Manager of the Gaming Policy and Enforcement Branch the power to issue directives to BCLC on how to carry out its responsibilities for lottery schemes under the *Act*.

The Gaming Policy and Enforcement Branch describes its role as follows:

> GPEB regulates all gaming in British Columbia, ensures the integrity of gaming industry, companies, people and equipment and investigates allegations of wrongdoing. This includes regulatory oversight of British Columbia Lottery Corporation (which conducts and manages lotteries, casinos and commercial bingo halls), all gaming service providers and gaming workers, B.C.'s horse racing industry and licensed gaming events.

The Gaming Policy and Enforcement Branch currently consists of 116 employees and has an annual operating budget of approximately $14.6 million. It is divided into seven divisions: Policy, Legislation and Standards; Licensing and Grants; Racing; Registration; Audit and Compliance; Investigations; and Management Services.

As a result of our investigation of BCLC's prize payout procedures, we looked at GPEB's actions in monitoring, auditing and investigating BCLC's prize payout procedures and the investigation of customer complaints. Initially we believed that we would simply be collecting information to assist us in investigating

BCLC's actions. After reviewing all the documentation provided by GPEB and their answers to questions, we decided that our investigation had to be extended to cover their actions in relation to BCLC's prize payout procedures.

GPEB's Monitoring of BCLC Prize Payout Procedures

GPEB issued no directives to BCLC between August 2002 and November 2006 regulating BCLC's prize payout procedure. Similarly, GPEB told us that "[p]rior to October 27, 2006, GPEB did not conduct any audits, inspections, investigations, studies or reports on BCLC's overall lottery retailer network, or any audits of BCLC's complaint handling process."

From the perspective of GPEB, as of August 19, 2002, section 86 of the *Act* required BCLC to immediately notify the General Manager of GPEB about any conduct, activity or incident occurring in connection with a lottery scheme that involved the commission of any criminal offence, such as fraud, that was relevant to the lottery scheme.

This concern about activities of people involved in the day-to-day operations of gaming is based on experience and reflected in the *Act* and its predecessor legislation. In casinos, horse racing and bingo halls, for example, most staff are subject to criminal conviction checks. The prize payouts in these organizations are monitored and often subject to surveillance. In addition GPEB has regularly conducted audits of casino, horse racing and bingo operations.

The section 86 reporting requirement was confirmed by GPEB's Director of the Investigation Division to the Director of Corporate Security of BCLC on February 11, 2003. GPEB's Director stated:

> The British Columbia Lottery Corporation must advise the Branch without delay, of … any real or suspected conduct, activity or incident that affects the integrity of gaming in relation to British Columbia Lottery Corporation lottery products.

On March 28, 2003 GPEB's General Manager wrote to the Chief Executive Officer of BCLC about reporting offences pursuant to section 86 (2) of the *Act*. In that letter he stated:

> Section 86 (2) of the *Gaming Control Act* requires the BC Lottery Corporation to notify the Branch, without delay, about any conduct, activity or incident occurring in connection with a lottery scheme … that may be considered contrary to the *Criminal Code* of Canada … This includes … fraud.

Consequently, it would be reasonable to expect that GPEB would audit or review BCLC's responses to certain customer complaints to ensure that BCLC was handling the complaints appropriately and that BCLC's policies and procedures are adequate.

In fact, GPEB assured our office in February 2007 that "since January 1, 2002, the [GPEB] Investigation Division has investigated all complaints of suspected wrongdoing at lottery retailers that have been reported by BCLC."

However, between 2002 and November 6, 2006 GPEB stated that it received no section 86 notices from BCLC relating to suspected fraudulent activity by BCLC retailers or BCLC retailer employees. As such, GPEB could not have investigated, audited or reviewed any BCLC investigations into alleged BCLC retailer or BCLC retailer fraud since 2002, even though BCLC itself had been routinely receiving these types of complaints.

GPEB's response to our office in essence was that GPEB was not aware that BCLC had been receiving these types of complaints because BCLC had not reported them to GPEB. We do not feel that this response relieves GPEB from its responsibilities given that GPEB has a duty of care to the public to ensure the integrity of the gaming industry, which includes BCLC's prize payout procedures. GPEB should have had a system in place to monitor BCLC's compliance with the section 86 reporting requirement. GPEB should have been aware that BCLC was receiving public complaints about the integrity of the BCLC lottery validation procedures and should have asked BCLC why BCLC was not reporting any of these types of complaints. GPEB itself had received five of these types of complaints directly from members of the public.

Interestingly in October 2004, GPEB did receive two e-mail notifications from BCLC Security about two incidents of suspected retailer fraud, though GPEB classified them as "Keno issues." In both cases GPEB left it to BCLC to resolve the matter, explaining that:

> These reports were provided to GPEB's Investigation Division primarily for information purposes.

There is a divergence of views about the direction given by GPEB to BCLC concerning reporting incidents of suspected retailer fraud after GPEB received these two e-mails in October 2004. According to BCLC internal records, GPEB stated that it did not want to receive any reports of suspected retailer fraud that dealt with amounts less than $2000. According to GPEB, that statement was not made and its written documentation is what should be relied on. To some degree, this contradiction is not particularly significant as no other e-mails or section 86 reports relating to suspected BCLC retailer or BCLC retailer employee fraud were sent by BCLC to GPEB until November 6, 2006 (after the October 2006 Fifth Estate broadcast). However, this does highlight the danger of informal procedures and only conveying important information verbally.

GPEB itself received and opened files on five complaints it received directly from the public about BCLC retailer or BCLC retailer employee fraud in the four year period between August 2002 and October 2006. We looked at the thoroughness of these investigations.

In the most significant case, the incident was alleged to have occurred in 2002. The person complained to GPEB in June 2003 after having already complained to BCLC. The complainant alleged that he had purchased a ticket, and was given a free play (but no validation slip) when he validated the ticket. He said that he felt that the ticket was actually a winning multi million dollar ticket.

The complainant was told by GPEB, based on information it requested from BCLC, that the winning ticket he was alleging had been stolen from him by a BCLC retailer employee, had been bought hundreds of kilometres away from where the complainant bought his ticket. This turned out to be untrue but that fact was not discovered by GPEB for another three years. The GPEB investigator in June 2003 explained:

I was satisfied that BCLC had completed their investigation and are certain there is no fraud involved.

When the complainant returned to GPEB in 2005, he was told:

> … there is nothing further we would do and if in fact he had the ticket and the store kept telling him it was not a winner then cashing it in later themselves he should have kept his ticket and checked out elsewhere.

The person returned again to raise his concerns with GPEB in early November 2006, after the October 2006 Fifth Estate broadcast. The GPEB file notes indicate:

> I explained to [name] there is nothing I can do further and the fact I believed the ticket was a legit winner. [Name] feels he may have to go to W-5 and have the entire lottery corporation shut down.

The complainant called back the next day with some new information about where the ticket he was disputing was bought. The entry in GPEB's file notes:

> On review he is correct. He also said I had told him I had seen the winning ticket. I haven't and I explained that to him.

The GPEB investigator then e-mailed BCLC and told them:

> In light of the recent news about Ontario Lottery W-5 scams with retailers [name] … has come back to me with his complaint …

The investigator asked BCLC for a photocopy of the ticket front and back and also, presumably since he did not know the answer, whether there was any way to determine the time and day of purchase of the disputed ticket.

In January 2007, BCLC finally had the winning ticket examined by a facility that tests lottery tickets for any additional markings. This was done as the complainant indicated that he may have made some pencil markings on the ticket. The response from that testing facility was:

> We have determined that there are no additional markings on the ticket other than those identified through your testing.

A BCLC representative came to the GPEB investigator's office in mid-January 2007, where he went over the materials he had e-mailed previously for clarification in the investigator's mind.

The last January 2007 entry in the Gaming Policy and Enforcement File materials, more than three and a half years after it was opened says:

> He may complain further and should that happen *we* have documentation to support this opinion *now* [emphasis added].

The other investigations were briefer. In each case, GPEB was satisfied by BCLC's response to their inquiry and closed the file. Those responses include a March 2003 complaint about a BCLC retailer employee tearing up tickets and validation slips rather than returning them. The response from BCLC deemed as satisfactory by GPEB was that it had asked the store manager to reconfirm the correct policy with staff and BCLC had talked with the complainant, who was happy with this discussion.

In our view these investigations by GPEB were not conducted independently.

Ombudsman Finding

9. GPEB did not, prior to October 27, 2006, adequately monitor, investigate or otherwise regulate BCLC's lottery prize payout procedures or BCLC's handling of customer complaints about BCLC retailer or BCLC retailer employee fraud.

Ombudsman Recommendations

24. GPEB enhance its regulation of BCLC's lottery prize payout procedures and complaints handling processes. This should include but not be limited to GPEB conducting regular audits of BCLC's lottery prize payout procedures and BCLC's investigation of customer complaints, ensuring BCLC's compliance with its section 86 reporting requirement and independently conducting its own investigations into public complaints involving BCLC's prize payout procedures. All of these activities should be reported on publicly in its annual report.

25. GPEB conduct independent systemic investigations into any recurring problems.

GPEB's December 2006 Investigation of BCLC's Prize Payout Procedures

On October 27, 2006, after the airing of the Fifth Estate program, GPEB was asked by the Solicitor General to "investigate and report on the integrity of BCLC's lottery ticket retail network, including:

- The technical integrity of the systems;
- The current methods BCLC uses, and requires of its retailers, to inform customers of winning tickets and to mitigate the possibility of retailers misrepresenting ticket circumstances to customers (e.g. by substituting tickets) and
- The current policies and procedures BCLC uses to confirm the integrity of a lottery retailer's claims regarding ownership of a winning ticket."

The Vancouver Province reported on December 20, 2006, that a spokesperson for GPEB stated that it had recently completed an investigation of BCLC and he was quoted as saying that "all BCLC's systems were subjected to rigorous and extensive testing and no major issues surfaced."

GPEB told us that Certificates of Technical Integrity have been issued for all lottery systems and that there were no issues with the integrity of the equipment. The GPEB testing and certification process relates to the electronic gaming equipment used in BC such as the programs in the computers at BCLC head office in Kamloops which select the winning numbers for the online lottery games. The GPEB certification process does not directly evaluate the aspect of protecting the public from potential retailer fraud in the prize payout process, which was the focus of our investigation.

We requested a copy of GPEB's entire investigative file, and we reviewed all of the information provided to us by GPEB. GPEB explained to us that the investigation it conducted at the request of the Solicitor General consisted primarily of GPEB interviewing BCLC staff. We were advised that there were no written records of these interviews. GPEB accepted the answers provided by BCLC and did not itself gather information to check to see if the answers provided by BCLC could be substantiated.

The written documentation that does exist shows that GPEB asked BCLC "whether any reports had been made to BCLC of attempted fraud in regards to retailers and outcomes if any." BCLC responded that there were 60 "retailer/retailer employee win investigations – unfounded" and 14 "retailer/retailer employee win investigations – suspicious" between January 1, 2005, and October 27, 2006. The 14 "suspicious" complaints were further broken down by BCLC into five (5) "attributed to potential retailer fraud" and nine (9) "attributed to clerical error." BCLC provided GPEB with a document outlining the summary of each complaint and BCLC's findings. The summaries and findings were anywhere from one to six sentences in length.

In regard to the 74 complaints, GPEB, during its investigation, did not review the actual complete complaint files. It only reviewed the summaries.

Despite the fact that GPEB had not reviewed the 74 files, GPEB's Final Report stated:

> GPEB reviewed 74 complaints concerning prize claims received by BCLC between January 2005 and October 2006. GPEB is satisfied with BCLC's management of those complaints.

GPEB's response to our office on February 19, 2007, indicated:

> On November 27, 2006, the [GPEB] Investigation Division was given a brief summary of the [74] BCLC Corporate Security reviews and/or investigations. BCLC *will provide* the [GPEB] Investigations Division with the full results of each consumer complaint file [the 74] as soon as possible. When the Investigations Division receives this information, they *will review* the circumstances of each case and *confirm whether the appropriate action was taken* [emphasis added].

It is clear that, during GPEB's investigation, it did not review the full 74 complaint files. Consequently it was not in a position to reassure the public in December 2006 that BCLC handled the complaints appropriately. GPEB explained to us that it verbally asked BCLC on November 22, 2006 for copies of its complete files related to the 74 complaints. We were told that this request was by the Investigations Division of GPEB and was not considered necessary for GPEB's completion of the investigation and report requested by the Solicitor General. The files were received on March 14, 2007.

As well, despite an internal GPEB document that questioned BCLC's statement that BCLC investigates all complaints of retailer fraud, GPEB's Final Report stated:

> BCLC investigates all complaints of retailer fraud/error regardless of the amount.

Our investigation revealed that BCLC Consumer Services was not passing along all complaints of retailer fraud to BCLC Security, and BCLC Security's investigative process was inconsistent and not thorough in many cases. If GPEB had done a complete investigation, it would have identified the same deficiencies and we believe come to the same conclusions.

In regard to GPEB's investigation of BCLC's validation procedures, the November 28, 2006 draft of GPEB's report expressed concern about BCLC's validation procedures. It said:

> The present *ticket validation process* lends itself to the potential for an unscrupulous retailer/employee to misrepresent ticket wins/losses and or exchange tickets [emphasis added].

However GPEB's Final Report appeared to focus on individuals rather than the process. The Final Report stated:

> Given the present processes and equipment, an unscrupulous retailer/employee could misrepresent ticket wins/losses and/or exchange tickets.

In regard to the prize payout procedures for prizes $10,000 and over, internal discussions at GPEB ensued regarding whether GPEB could conclude that BCLC subjects winners of prizes over $10,000 to a thorough investigation and interview process. There was no indication in the GPEB investigative file that GPEB reviewed any prize payout files and/or interviews to conclude whether the interview process was thorough in specific cases. According to an internal e-mail, at least one senior staff member at GPEB, after looking at the interview template used by BCLC, felt that BCLC staff was not thoroughly trained to provide effective evaluations and scrutiny of retailer claims over $10,000.

GPEB made the decision to eliminate the words "a thorough investigation" from GPEB's conclusions. As a result, the Final GPEB Report states:

> BCLC's prize claim procedures for amount of $10,000 or more (including claims by retailers) consist of a personal interview by prize/sales staff (but not corporate security) prior to any payment.

The Final Report includes three recommendations to address this issue:

- All prize claims in excess of $25,000 must be submitted to interviews through BCLC corporate security personnel;
- Winners of all prize claims over $25,000 to sign a waiver certifying that they are not retailers or a close relative of a retailer. (BCLC agreed, and indicated that the threshold would be lowered to $10,000); and
- Recommendation that all retailer prize claims over $3,000 be subjected to interviews by BCLC corporate security personnel.

GPEB stated to us that in its view its final report of December 2006 should be seen as publicly raising serious concerns about BCLC prize payout procedures.

While GPEB obviously had some concerns about BCLC's scrutiny of prizes $10,000 and over, GPEB did not thoroughly investigate this issue. In our view the overall tone of the report is reassuring rather than seriously concerned. The depth of the investigation and the fact that a number of disquieting pieces of information were toned down or left out contributes to this result. For example, GPEB did not identify that BCLC was relying on retailers to identify themselves in the prize payout interview, that BCLC was unable

to verify whether prize claimants were retailers, that there was inadequate scrutiny of retailer winners, or that BCLC had paid prizes to retailers who were unable to verify the date and time of purchase of the ticket or who could easily determine the correct answers as in the case of Keno tickets.

Most significantly, despite this knowledge, GPEB only took a cursory look at the prize payout procedures for prizes under $10,000, which accounted for over 99 per cent of winning tickets. It appears that GPEB did not independently investigate this area and simply relied on BCLC's assertions that the process was adequate given the existence of PDUs, CAT machines and the jingle that plays when a player wins a prize. GPEB's only comments were that the PDU should be locked in place to face the customer and that CAT coverage should be increased to a greater number of retail lottery outlets. GPEB did not uncover many of the weaknesses in BCLC's prize payout procedures that our investigation revealed.

Ombudsman Finding

10. GPEB's November/December 2006 investigation into and report on the integrity of BCLC's lottery ticket retail network was inadequate.

Ombudsman Recommendations

26. GPEB report publicly on BCLC compliance with its recommendations for change every six months until completed and clearly identify whether it is satisfied with the progress.

27. GPEB conduct a thorough investigation of BCLC's investigation into all complaints of potential retailer impropriety since January 1, 2005 and report publicly on its findings.

Findings Resulting From Our Investigation of BCLC

I am of the opinion that BCLC's validation and prize payout procedures lacked reasonable security safeguards to achieve the goal of ensuring that the rightful owner of a winning ticket could be confident of collecting the correct prize. Specifically, I find that:

Collection of Information

1. BCLC did not have processes in place that allowed it to track and analyze BCLC retailer and BCLC retailer employee rates of play and win.

Validation Process

2. BCLC's validation and prize payout procedures had readily identifiable gaps that permitted BCLC retailer and BCLC retailer employee misconduct.

3. BCLC did not have effective procedures for checking the security of prize pay outs for prizes under $10,000.

4. BCLC's prize payout security procedures for prizes over $10,000 were unreasonably dependent on self-identification by BCLC retailer employees.

Compliance/Enforcement

5. BCLC's internal watchdog procedures were inadequate for the purpose of reliably identifying suspicious BCLC retailer and BCLC retailer employee activity.

6. BCLC's security and enforcement procedures relating to retailer impropriety were insufficient and inconsistently applied.

Complaints Process

7. BCLC did not have reliable procedures for recording, tracking and responding to purchaser/customer complaints.

8. BCLC did not organize its data collection, analysis and retention to facilitate responses to those purchaser/customer complaints.

Consequently, I find BCLC's validation and prize payout procedures were unreasonable as set out in section 23(1)(v) of the *Ombudsman Act*.

Findings Resulting From Our Investigation of GPEB

GPEB's Monitoring of BCLC Prize Payout Procedures

9. GPEB did not, prior to October 27, 2006, adequately monitor, investigate or otherwise regulate BCLC's lottery prize payout procedures or BCLC's handling of customer complaints about BCLC retailer or BCLC retailer employee fraud.

GPEB's December 2006 Investigation of BCLC's Prize Payout Procedures

10. GPEB's November/December 2006 investigation into and report on the integrity of BCLC's lottery ticket retail network was inadequate.

Consequently, I find GPEB's actions relative to regulating BCLC's lottery prize payout procedures were unreasonable as set out in section 23(1)(v) of the *Ombudsman Act*.

Recommendations Pertaining to BCLC

Collection of Information and Data

1. BCLC create and maintain a list of current identifying information on all BCLC retailers and BCLC retailer employees.

2. BCLC require all BCLC retailers and BCLC retailer employees (insiders) to use a swipe card or enter a code before all purchases of lottery products in order to collect a prize.

3. BCLC report publicly and annually on the rate of insider play and wins at all prize levels.

Validation Process

4. BCLC pursue the development of technological security enhancements to monitor self-checking machines, speakers and any other devices designed to alert purchasers/customers of a win and if these devices are disabled for any reason to suspend sales at that location until they are inspected and repaired.

5. BCLC require tickets or "non-valid duplicates" to be returned to all ticket holders with appropriate markings to identify whether the ticket is not a winner; has been validated but not paid out; or is a winner and has been paid out.

6. BCLC include on-screen information about winning tickets in more than one language if the demographics of an area indicate this is useful.

7. BCLC impose an audit process on all wins over $3,000 that includes the requirement for a winner to make a statutory declaration that they are not a close relative of a BCLC retailer or a BCLC retailer employee.

8. BCLC require BCLC retailers to collect identification from winners for wins of $1,000 and greater and forward this information to BCLC. BCLC will then input this data into a database and perform random and regular audits to ensure the rightful owner of the winning ticket was paid the correct prize.

9. BCLC commit to moving toward implementing 100 per cent coverage of Check-A-Ticket machines and Keno Self-Serve Terminals as soon as possible.

10. BCLC implement a system where scratch and win tickets are recorded when sold to a player. BCLC to use this information as a security check during prize payout process.

Compliance/Enforcement

11. BCLC modify its internal watchdog system to ensure that multiple checks of the same ticket, multiple attempts to validate a scratch and win or similar product, and any other suspicious activity be identified, investigated, reported upon, acted upon and tracked for trends.

12. BCLC develop an incentive program for BCLC retailers and BCLC retailer employees to identify gaps in post-point of sale security procedures and report them to BCLC.

13. Where BCLC reasonably suspects that a BCLC retailer or BCLC retailer employee or any other person has committed a criminal offence, BCLC promptly pass on this information to the appropriate police force.

14. BCLC have a clear, consistently enforced, process of progressive discipline for BCLC retailers and BCLC retailer employees for breaches of post-point of sale security including where appropriate termination of the BCLC contract.

15. BCLC certify all persons operating its machinery have been properly trained to do so.

16. BCLC conduct regular, random and comprehensive audits of BCLC retail outlets to ensure compliance with its post-point of sale policies and take progressive disciplinary action for any breaches.

17. BCLC develop an incentive program for purchasers/customers to promptly report deficiencies at its retail outlets.

Complaints Process

18. BCLC create a written policy for dealing with all customer complaints about post-point of sale security issues, including clear categories for identifying and tracking those customer complaints; a requirement that all those customer complaints be referred to and investigated by Security; a process for analysing those complaints and tracking trends; and a requirement that the results of the process be reported on annually to the Chief Executive Officer, the Board of BCLC and the public.

General

19. BCLC establish a position at the senior management level with responsibility for all aspects of post-point of sale purchaser/customer prize payout security of lottery products.

20. BCLC implement all GPEB December 2006 recommendations promptly.

Addressing Past Deficiencies

21. BCLC be open to receiving complaints from players who feel that they were the victim of retailer impropriety. BCLC to investigate the complaints fully to determine if substantiated; if so, BCLC should be willing to reimburse the player.

22. BCLC review its records including phone logs and security records to determine if there are any complaints where BCLC can improve its response or investigation.

23. BCLC Security review of all multiple retailer winners to confirm that the prize pay outs are valid; if suspicious circumstance are found, BCLC to report to the appropriate authorities.

Recommendations Pertaining to GPEB

GPEB's Monitoring of BCLC Prize Payout Procedures

24. GPEB enhance its regulation of BCLC's lottery prize payout procedures and complaints handling processes. This should include but not be limited to GPEB conducting regular audits of BCLC's lottery prize payout procedures and BCLC's investigation of customer complaints, ensuring BCLC's compliance with its section 86 reporting requirement and independently conducting its own investigations into public complaints involving BCLC's prize payout procedures. All of these activities should be reported on publicly in its annual report.

25. GPEB conduct independent systemic investigations into any recurring problems.

GPEB's December 2006 Investigation of BCLC's Prize Payout Procedures

26. GPEB report publicly on BCLC compliance with its recommendations for change every six months until completed and clearly identify whether it is satisfied with the progress.

27. GPEB conduct a thorough investigation of BCLC's investigation into all complaints of potential retailer impropriety since January 1, 2005 and report publicly on its findings.

Glossary of Lottery Terms

BC/49

With a top prize of $2 million, BC/49 is a British Columbia-only draw game, drawn each Wednesday and Saturday at BCLC Headquarters in Kamloops. BC/49 players select six numbers from 1 – 49. At draw time, six numbers plus a bonus number are drawn. Prizes vary depending on how many of the player's numbers match those drawn. The player or players who match all six numbers will win or share the top prize. Players can purchase BC/49 tickets only at BCLC lottery retailers, by subscription with BCLC or online through PlayNow on BCLC's website. Players purchasing tickets at a lottery retailer have the option of asking the BCLC retailer or BCLC retailer employee to generate a Quick Pick ticket which randomly selects six numbers for the player. For both Quick Pick and player-selected numbers, the lottery machine will generate a printed ticket that the player must retain in order to receive any prize. Odds of winning the top BC/49 prize are approximately one in 14,000,000 per ticket.

Check-A-Ticket (CAT) Machine

The Check a Ticket machine allows the player to check whether a lottery ticket (other than an instant ticket) is a winner. The machine does not pay out the win.

Consumer Services

Consumer Services is the BCLC department that answers calls from players, BCLC retailers and BCLC retailer employees.

Control Number

The control number is a unique 20 digit number assigned to every lottery transaction.

Exchange Ticket

Where the original ticket is for more than one draw and the player checks one of the earlier draws, the original ticket is now void and the player should get an exchange ticket for future draws yet unplayed.

Extra

With a top prize of $500,000, the Extra is a British Columbia-only lottery game that is drawn each Wednesday and Saturday in conjunction with Lotto 6/49 and BC/49 and each Friday in conjunction with Lotto Super 7. As this is a BC-only game, all draws are made at BCLC headquarters in Kamloops. Four Extra numbers between 1 and 99 are randomly generated and are printed on every Lotto 6/49, BC/49 and Lotto Super 7 ticket sold in British Columbia. At draw time, four numbers are drawn, with the top prize given for matching all four numbers. Each play costs $1 and when players purchase a Lotto 6/49, BC/49 or

Lotto Super 7 in British Columbia, the BCLC retailer or BCLC retailer employee provides each player the opportunity to purchase the Extra. If an Extra play is purchased the word "Yes" will appear next to the Extra numbers on the ticket. If the player does not wish to purchase the Extra, the numbers will still appear on the ticket, but will have the word "No" next to them. Players can purchase up to 10 sets of Extra numbers for each ticket purchased. Odds of winning the top Extra prize are approximately one in 4,000,000 per ticket.

Keno

With a maximum prize of $100,000, Keno is a British Columbia-only lottery game which is drawn every five minutes from 6:05 a.m. to 1 a.m., seven days a week. Keno can be purchased at many lottery retailers as well as at participating bars and pubs across the province. Players select between one and 10 numbers from 1 – 80 and can choose to purchase up to 99 consecutive games in advance. Players purchasing tickets at a lottery retailer have the option of asking the BCLC retailer or BCLC retailer employee to generate a Quick Pick ticket which randomly selects numbers for the player. For both Quick Pick and player-selected numbers, the lottery machine will generate a printed ticket that the player must retain in order to receive any prize. At draw time, 20 numbers are drawn and the prize money varies depending on the player's initial number selection and the number of correct matches. To win the top prize of $100,000 in Keno, players must correctly guess 10 out of 10 numbers. The odds of winning this prize are approximately one in 9,000,000 per ticket.

Lottery Game

A lottery game is a game of chance or a game combining chance and skill in which ticket holders are eligible to win a prize. A prize may take the form of money or other goods such as a car or vacation. Under the *Criminal Code* of Canada a lottery game falls under the definition of a lottery scheme.

Lottery Terminal Scanner

The Lottery Terminal Scanner is the machine that BCLC retailers or BCLC retailer employees use to validate a lottery ticket.

Lotto 6/49

Lotto 6/49 is a national lottery game that is drawn each Wednesday and Saturday in Toronto by the Interprovincial Lottery Corporation. Lotto 6/49 has a growing top jackpot which continues to increase until the prize is won. Each play costs $2 and players are required to select six numbers from 1 – 49. At draw time, six numbers plus a bonus number are drawn. Prizes vary depending on how many of a player's numbers match those drawn. The player or players who match all six numbers drawn will win or share the top prize. In British Columbia, players can purchase Lotto 6/49 tickets at BCLC lottery retailers, by subscription with BCLC or online through PlayNow on BCLC's website. Players purchasing tickets at a lottery retailer have the option of asking the BCLC retailer or BCLC retailer employee to generate a Quick Pick ticket which randomly selects six numbers for the player. For both Quick Pick and player-selected numbers, the lottery machine will generate a printed ticket which the player must retain in order to receive any prize. Odds of winning the top Lotto 6/49 prize are approximately one in 14,000,000 per ticket.

Appendix

Lotto Super 7

With a guaranteed jackpot of at least $2.5 million, Lotto Super 7 is a national lottery which is drawn each Friday in Toronto by the Interprovincial Lottery Corporation. Each play costs $2 and requires players to select seven numbers from 1 – 47. At draw time, seven numbers plus a bonus number are drawn. Prizes vary depending on how many of the player's numbers match those drawn. The player or players who match all seven numbers will win or share the top prize. In British Columbia, players can purchase Lotto Super 7 tickets at BCLC lottery retailers, by subscription with BCLC or online through PlayNow on BCLC's website. Players purchasing tickets at a lottery retailer have the option of asking the BCLC retailer or BCLC retailer employee to generate a Quick Pick ticket which randomly selects the seven numbers for the player. For both Quick Pick and player-selected numbers, the lottery machine will generate a printed ticket that the player must retain in order to receive any prize. Odds of winning the top Lotto Super 7 prize are approximately one in 63,000,000 per ticket.

PayDay

PayDay is a British Columbia-only lottery game drawn each Thursday evening at just after 10 p.m. Each play costs $2 and requires players to select four numbers from 1 – 77. PayDay has a top prize of $2,000 every two weeks for 20 years. Winners of the top prize can, if they choose, opt to take a one time lump sum payment of $625,000. An additional 14 sets of four numbers are automatically printed on the bottom of each PayDay ticket and players matching these numbers to their original four number selection will be eligible to win additional prizes of up to $50,000. PayDay Players can win up to 15 times on each ticket. Players select their own four numbers or, if purchasing tickets at a lottery retailer, have the option of asking the BCLC retailer or BCLC retailer employee to generate a Quick Pick ticket which randomly selects the numbers for the players. For both Quick Pick and player-selected numbers, the lottery machine will generate a printed ticket which the player must retain in order to receive any prize. The odds of winning the top PayDay prize are approximately one in 1,353,275 per ticket.

Player Display Units (PDU)

The Player Display Unit is the screen facing the player at the lottery outlet that shows the amount of the prize won or displays the message "Not a Winner" during the validation process.

Pull Tabs

Pull Tabs are instant win tickets sold in pubs and bars around the province. Prices for Pull Tab tickets range from 50¢ to $1 per play. Players open or remove the tabs on the back of the ticket to reveal symbols or prize amounts on the play surface. Each ticket includes playing instructions printed on the ticket. Prizes range from $1 to $500 and must be claimed at the purchase location on the day of purchase. Unlike instant games and draw games such as Lotto 6/49, Pull Tabs are not validated electronically.

Scratch and Win

BCLC scratch and win tickets are instant games in which players scratch off a latex surface to uncover the play surface. Some scratch and win tickets are sold only in British Columbia while others are available across the country. BCLC offers a variety of themed scratch and win games from licensed products like Deal or No Deal, Monopoly, Bingo and Crossword. In the most straightforward games, a player who uncovers three of the same dollar amount on the playing surface will win the corresponding prize. Prizes vary considerably from a free ticket to $1,000, every week for 25 years. Pricing for scratch and win games begins at $1 and odds of winning differ depending on the type of game and the number of tickets printed. All BCLC instant win tickets are printed with detailed instructions for play and include the approximate overall odds to win on the back of the ticket. Each ticket has a scannable bar code and a unique control number located under the latex surface which, when entered into the lottery terminal by a lottery BCLC retailer or BCLC retailer employee, will indicate whether the ticket is a winner.

Sports Action

There are five Sports Action live event wagering games which allow the player to select and predict the outcome of a variety of sports events from Sports Action's daily menu of games. Sports Action tickets cost between $2 and $100 per play and rules require that players bet on at least two games from the menu. Players win with Sports Action when they correctly predict whether the total score of a game will be over or under a certain amount, when they correctly identify whether a team will win or tie a game or when they correctly identify the point spread of a game. There is no Quick Pick option for Sports Action and players must complete a manual selection slip. The lottery machine will generate a printed ticket that the player must retain in order to receive any prize. A Sports Action win is dependent on the outcome of the actual sports event and the odds of winning Sports Action games are set by BCLC.

Super Retailer

Super retailers are those lottery retailers that are able to pay out prizes up to $9,999. As of April 2007, the only remaining super-retailers are casinos.

Validation

Validation is the process for verifying a winning lottery ticket, the value of the prize and payment of the prize.

Validation Slip

The validation slip is the receipt printed out automatically by the lottery terminal after a BCLC retailer or BCLC retailer employee validates the ticket.

GPEB Recommendations and BCLC Responses

1. Amend the Act to require the on-site retailer manager (but not retail employees) to be registered with GPEB as a "gaming worker." As such, this individual will be subject to a criminal record check and will be required under section 86 of the *Act* to notify GPEB about lottery-related incidents that involve the commission of a relevant *Criminal Code* offence or the commission of an offence under the Act or the regulations. BCLC agreed.

2. GPEB to start issuing general certificates of technical integrity for scratch and win games (previously, the certificates were only issued for non scratch and win games). BCLC agreed.

3. BCLC to ensure that the Player Display Units are locked in place to face the customer. BCLC agreed.

4. BCLC to install Check-A-Ticket (CAT) machines to provide a printed confirmation of the win. BCLC's response indicated that technical and cost limitations preclude the CAT machine from checking scratch and win tickets and from printing a confirmation of the win. BCLC stated that it would be increasing coverage of the CAT machines from 50 per cent[42] of retail locations to 70 per cent, and that the CAT machine would indicate the amount of the win in the future. GPEB agreed with the revised recommendation, but added that BCLC and GPEB will review long-term effectiveness, including the inclusion of scratch and wins and whether the 70 per cent coverage is adequate.

5. GPEB to reconfirm the requirement for BCLC to make reports under section 86 of the *Act*. BCLC agreed but stated that it has been compliant with section 86 reporting requirements. GPEB noted that this item would "just be a reminder."

6. All prize claims over $25,000 to be subjected to an interview with BCLC Corporate Security. BCLC disagreed with the recommendation, stating that its Prize Payout staff are experienced in identifying potential fraudulent claims and that BCLC Security review all claims over $10,000. GPEB disagreed. GPEB and BCLC to continue to discuss.

7. All retailer (or close relatives of retailer) prize claims over $3,000 to be subjected to an interview with BCLC Corporate Security. The internal BCLC document reads: "BCLC agrees. Corporate Security currently investigates all retailer prize claims at our Richmond and Kamloops offices and confirms with employers for any retailer/employee claims." BCLC stated that it "will implement new policies requiring Super Retailers and casinos to refer all retailer/employee claims to Richmond or Kamloops office for prize payout and Corporate Security will review. In addition, BCLC will implement regular reporting to the Executive and BCLC's Board of Directors on all retailer/employee wins."

8. Winners of all prize claims over $25,000 to sign a waiver certifying that they are not retailers or a close relative of a retailer. BCLC agreed and indicated that the threshold would be lowered to $10,000.

9. BCLC to review its training regime for Prize Payout staff and report to GPEB on the results and any changes it considers necessary. BCLC agreed and noted that it was implementing an online training program for retailers.

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[42] We note that BCLC advised us that the current CAT coverage is 42 per cent of lottery outlets not 50 per cent.

Game Design Issues

Pull Tabs

We heard from a number of complainants and BCLC retailers about the potential for unfair play in regard to the Pull Tab games played in bars and restaurants. This game is managed differently than other BCLC games in that the Pull Tabs are sold in boxes to the retailer. Inside every box is a "win sheet" outlining the number of winning tickets and the prize values. The Pull Tab players are only allowed to redeem the Pull Tabs at the retailer where they purchased the Pull Tabs, and the retailer is supposed to keep track of which Pull Tabs have been paid out of each box. The validation of the Pull Tabs is not done through BCLC lottery terminals like online and scratch and win tickets.

The concern arises because the retailer is aware at any given time how many winning Pull Tabs are left in the box. As such, the retailer, knowing that there are some big winners left (in only a minimal number of Pull Tabs) can play the Pull Tabs until there is a winner. In these situations, the BCLC retailer or BCLC retailer employee has inside information and can profit from this information.

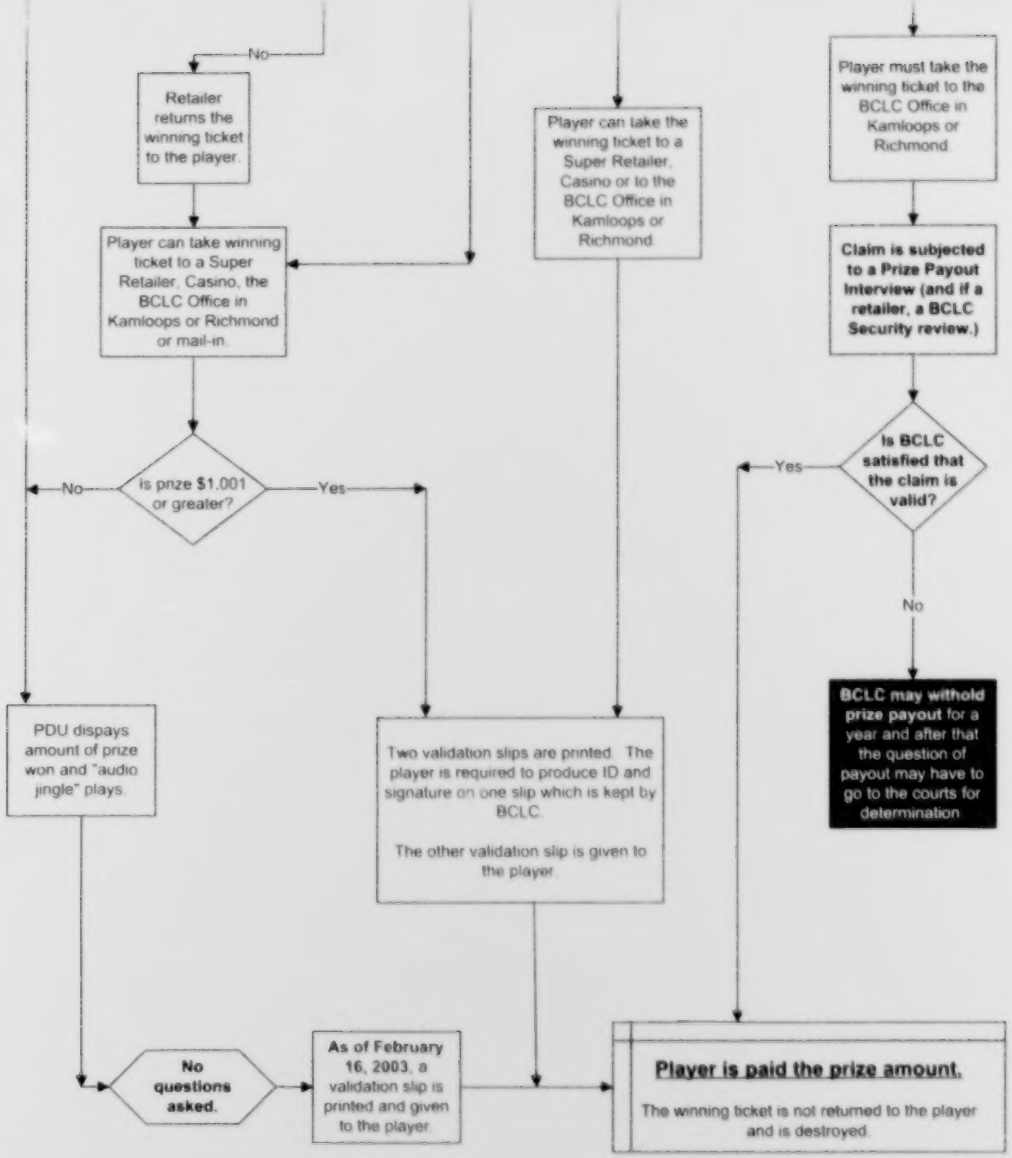
We have reviewed a number of BCLC complaint files involving this scenario and it seems that BCLC is aware of these concerns. While not a formal recommendation, we suggest that if BCLC wants to continue offering Pull Tab games, it should consider ensuring that all players have access to the same information that the retailer has about when major prizes have been paid out.

Scratch and Wins

We heard from a number of complainants that they were concerned that scratch and win tickets continue to be sold even though the top prizes had already been paid out. BCLC's response was that a statement is provided on the back of scratch and win tickets which indicates that the top prizes may have already been won at the time of purchase. While not a formal recommendation, we suggest that BCLC consider providing retailers with information about which prizes have been paid out so that, if asked, they can provide the player with the information before the ticket is purchased.

Flowcharts of Lottery Ticket Validation Processes

Lottery Ticket Validation Process as of September 30, 2006
(prior to the Fifth Estate Lottery Story)
Players can take the ticket to a Lottery Retailer Station and ask retail clerk to check ticket
The clerk checks the ticket in the retailer terminal and the result is displayed on the Player Video Display Unit (PDU)
Is the Ticket a Winner?
No
The retailer must:
1. provide the player with a validation slip that says the ticket is not a winner
2. return the ticket to the player
Yes
Prize Amount $200 or less
Prize Amount $201 to $3,000
Prize Amount $3,001 to $9,999
Prize Amount $10,000 and over
More than 99.9% of Winning Tickets and 80% of Prize Money are for prizes under $10, 000. (in fiscal 05/06)
Retailer (or Super Retailer, Casino, BCLC Office or mail-in) must pay prize amount to the player
Retailer may pay the prize amount (and may not)
Retailer can not pay the prize. The customer must go to a Super Retailer, Casino or to a BCLC Prize Payout Centre
Retailer can not pay the prize. The customer must go to a BCLC Prize Payout Centre
Player takes ticket to Retailer?
No
Yes
Retailer returns winning ticket to Player
Retailer returns winning ticket to Player
Yes


No
Retailer returns the winning ticket to the player.
Player can take winning ticket to a Super Retailer, Casino, the BCLC Office in Kamloops or Richmond or mail-in.
Player can take the winning ticket to a Super Retailer, Casino or to the BCLC Office in Kamloops or Richmond.
Player must take the winning ticket to the BCLC Office in Kamloops or Richmond.
Claim is subjected to a Prize Payout Interview (and if a retailer, a BCLC Security review.)
Is BCLC satisfied that the claim is valid?
Yes
No
BCLC may withold prize payout for a year and after that the question of payout may have to go to the courts for determination.
No
is prize $1,001 or greater?
Yes
PDU dispays amount of prize won and "audio jingle" plays.
Two validation slips are printed. The player is required to produce ID and signature on one slip which is kept by BCLC.
The other validation slip is given to the player.
No questions asked.
As of February 16, 2003, a validation slip is printed and given to the player.
Player is paid the prize amount.
The winning ticket is not returned to the player and is destroyed.

Lottery Ticket Validation Process as of July 30, 2007

Players can take the ticket to a Lottery Retailer Station and ask retail clerk to check ticket
Note: The use of this shape indicates where this July 30, 2007 flowchart contains information that is different from the 2006 flowchart.
The clerk checks the ticket in the retailer terminal and the result is displayed on the Player Video Display Unit (PDU)
As of June 30, 2007, PDUs to be locked in position so they face customer.
Is the Ticket a Winner?
No
The retailer must:
1. provide the player with: a validation slip that says the ticket is not a winner
2. return the ticket to the player.
Yes
Prize Amount $200 or less
Prize Amount $201 to $3,000
Prize Amount $3,001 to $9,999
Prize Amount $10,000 and over
More than 99.9% of Winning Tickets and 80% of Prize Money are for prizes under $10, 000. (in fiscal 05/06)
Retailer (or Casino, BCLC Office or mail-in) must pay prize amount to the player
Retailer may pay the prize amount (and may not)
Retailer can not pay the prize. The customer must go to a Casino or to a BCLC Prize Payout Centre
Retailer can not pay the prize. The customer must go to a BCLC Prize Payout Centre
Player takes ticket to Retailer?
No
Yes
Retailer Chooses to Pay the Prize?
Yes
No
Retailer returns winning ticket and provides a Claim Slip to Player.
Retailer returns winning ticket and provides a Claim Slip to Player.

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Retailer returns the winning ticket to the player.
As of March 26, 2007, a validation receipt showing the amount of win and that no payout occured will be issued, and
- an audio jingle will play
Player can take the winning ticket to a Casino or to the BCLC Office in Kamloops or Richmond.
Player can take the winning ticket to the BCLC Office in Kamloops or Richmond.
A non-retailer winner of up to $10,000 that goes to a BCLC office must initial that he or she is not a retailer.
In future: a non-retailer winner of above $10,000 must sign a statement that he or she is not a retailer.
Player can take winning ticket to a Casino, the BCLC Office in Kamloops or Richmond or mail-in.
Players asked if they are a Retailer or an employee of a retailer?
Yes
No
Is prize $1,001 or greater?
No
Yes
Claim is subjected to a BCLC Security review (and if above $10,000 -- an interview).
Is Security satisfied that the claim is valid?
No
Yes
PDU dispays amount of prize won and "audio jingle" plays.
By Feb. 26, 2007 the audio jingle will be locked at maximun volume
By March 26, 2007 the PDU message will stay on screen longer
Two validation slips are printed. The player is required to produce picture ID, complete a checklist on the bottom of slip and sign it -- that slip is kept by BCLC.
The other validation slip is given to the player.
BCLC may withold prize payout for a year and after that the question of payout may have to go to the courts for determination.
No questions asked.
As of February 16, 2003, a validation slip is printed and given to the player.
Player is paid the prize amount.
The winning ticket is not returned to the player and is destroyed.

Validation Statistics

Validation Statistics for Fiscal Year April 01, 2005 to March 31, 2006

	Claims Validated at Retailers prizes from $1 to $3,000	Claims Validatd at Super Retailers/ Casinos prizes from $1 to $9,999	Claims Validated at BCLC in Kamloops or Richmond				Total
			prizes $200 and under	prizes from $201 to $3,000	prizes from $3,001 to $9,999	prizes $10,000 and over	
Number of Tickets	54,913,225	1,487,370	239,624	8,603	869	562	56,650,253
Per cent of total Tickets	96.934%	2.626%	0.423%	0.015%	0.002%	0.001%	100.00%

Prize $	$396,206,246.70	$15,823,019.29	$1,788,131.73	$8,597,701.70	$4,191,337.46	$106,433,581.04	$533,040,017.92
Per cent of Total Prize $	74.33%	2.97%	0.34%	1.61%	0.79%	19.97%	100%

Multiple Retailer Winners

We are not satisfied these are all of the multiple retailer winners. This list includes only those retailers who self-identify. As well, only those wins under $10,000 redeemed at BCLC offices are included (the others were not tracked).

The majority of these multiple retailer winners, namely 74 per cent of them, won on Keno followed by 15 per cent winning on Sports Action. The remaining 11 per cent won on the other BCLC games.

Note: The fiscal years in the table below reflect the period from April 1 of one year to March 31 of the following year.

1. Employee at Lottery Retail Outlet		
Fiscal Year	Wins	Prize Amount
2001/2002	1st	Between $25,000 and $49,999
2002/2003	1st	Between $25,000 and $49,999
2003/2004	1st	Between $25,000 and $49,999
	2nd	Between $3,001 and $9,999
	3rd	Between $20,000 and $24,999
	4th	Between $15,000 and $19,999
2005/2006	1st	Between $50,000 and $74,999
	2nd	Between $20,000 and $24,999
	3rd	Between $15,000 and $19,999
	4th	Between $10,000 and $14,999
2006/2007	1st	Between $25,000 and $49,999
Total Wins		**Between $300,000 and $324,999**

2. Co-Owners of a Lottery Outlet		
Fiscal Year	Wins	Prize Amount
2003/2004	1st	Between $3,001 and $9,999
	2nd	Between $3,001 and $9,999
2004/2005	1st	Between $20,000 and $24,999
2005/2006	1st	Between $10,000 and $14,999
	2nd	Between $3,001 and $9,999
	3rd	Between $10,000 and $14,999
	4th	Between $25,000 and $49,999
2006/2007	1st	Between $10,000 and $14,999
	2nd	Between $3,001 and $9,999
	3rd	Between $3,001 and $9,999
Total Wins		**Between $100,000 and $124,999**

3. Employee at Lottery Outlet		
Fiscal Year	Wins	Prize Amount
	1st	
	1st	
Total Wins		**$1,000,000 and over**

4. Co-owners of a Lottery Outlet		
Fiscal Year	Wins	Prize Amount
1999/2000	1st	Between $3,001 and $9,999
2000/2001	1st	Between $10,000 and $14,999
	2nd	Between $15,000 and $19,999
Total Wins		**Between $25,000 and $49,999**

5. Lottery Outlet Owner		
Fiscal Year	Wins	Prize Amount
1999/2000	1st	Between $3,001 and $9,999
	2nd	Between $3,001 and $9,999
2000/2001	1st	Between $20,000 and $24,999
	2nd	Between $20,000 and $24,999
	3rd	Between $3,001 and $9,999
2003/2004	1st	$1,000 and under
2004/2005	1st	$1,000 and under
2005/2006	1st	$1,000 and under
Total Wins		**Between $25,000 and $49,999**

6. Employee at Lottery Outlet		
Fiscal Year	Wins	Prize Amount
2002/2003	1st	Between $10,000 and $14,999
2004/2005	1st	Between $15,000 and $19,999
2005/2006	1st	Between $15,000 and $19,999
Total Wins		**Between $25,000 and $49,999**

7. Owner of Lottery Outlet		
Fiscal Year	Wins	Prize Amount
1994/1995	1st	$1,000 and under
	2nd	Between $1,001 and $3,000
2005/2006	1st	Between $10,000 and $14,999
2006/2007	1st	Between $10,000 and $14,999
Total Wins		**Between $20,000 and $24,999**

8. Co-workers at Lottery Outlet (2 people)		
Fiscal Year	Wins	Prize Amount
2001/2002	1st	Between $3,001 and $9,999
	2nd	Between $3,001 and $9,999
2002/2003	1st	Between $3,001 and $9,999
2004/2005	1st	Between $15,000 and $19,999
	2nd	Between $25,000 and $49,999
	3rd	Between $3,001 and $9,999
2005/2006	1st	Between $3,001 and $9,999
Total Wins		**Between $50,000 and $74,999**

9. Employee at Lottery Outlet		
Fiscal Year	Wins	Prize Amount
1997/998	1st	Between $3,001 and $9,999
1998/1999	1st	Between $3,001 and $9,999
	2nd	Between $3,001 and $9,999
1999/2000	1st	Between $3,001 and $9,999
	2nd	Between $3,001 and $9,999
	3rd	Between $3,001 and $9,999
2000/2001	1st	Between $25,000 and $49,999
	2nd	Between $3,001 and $9,999
	3rd	Between $10,000 and $14,999
	4th	Between $50,000 and $74,999
	5th	Between $3,001 and $9,999
	6th	Between $3,001 and $9,999
	7th	Between $3,001 and $9,999
	8th	Between $3,001 and $9,999
	9th	Between $3,001 and $9,999
	10th	Between $3,001 and $9,999
	11th	Between $3,001 and $9,999
	12th	Between $3,001 and $9,999
	13th	Between $3,001 and $9,999
Total Wins		**Between $150,000 and $174,999**

10. Owner of Lottery Outlet		
Fiscal Year	Wins	Prize Amount
1999/2000	1st	$1,000 and under
2001/2002	1st	Between $1,001 and $3,000
2005/2006	1st	Between $25,000 and $49,999
Total Wins		**Between $25,000 and $49,999**

11. Employee at Lottery Outlet		
Fiscal Year	Wins	Prize Amount
2002/2003	1st	$1,000 and under
2003/2004	1st	Between $1,001 and $3,000
	2nd	$1,000 and under
	3rd	Between $1,001 and $3,000
2004/2005	1st	Between $1,001 and $3,000
2005/2006	1st	Between $1,001 and $3,000
	2nd	Between $1,001 and $3,000
2006/2007	1st	Between $3,001 and $9,999
Total Wins		**Between $15,000 and $19,999**

12. Owner/Operator of Lottery Outlet		
Fiscal Year	Wins	Prize Amount
2003-2004	1st	Between $20,000 and $24,999
	2nd	Between $20,000 and $24,999
2005-2006	1st	Between $1,001 and $3,000
	2nd	Between $1,001 and $3,000
	3rd	Between $1,001 and $3,000
	4th	Between $3,001 and $9,999
	5th	Between $3,001 and $9,999
Total Wins		**Between $50,000 and $74,999**

13. Employee at Lottery Outlet		
Fiscal Year	Wins	Prize Amount
2002/2003	1st	Between $3,001 and $9,999
2003/2004	1st	Between $1,001 and $3,000
2006/2007	1st	Between $3,001 and $9,999
Total Wins		**Between $10,000 and $14,999**

14. Employee at Lottery Outlet		
Fiscal Year	Wins	Prize Amount
2000/2001	1st	Between $1,001 and $3,000
2001/2002	1st	$1,000 and under
	2nd	Between $1,001 and $3,000
2006/2007	1st	Between $3,001 and $9,999
Total Wins		**Between $10,000 and $14,999**

15. Employee at Lottery Outlet		
Fiscal Year	Wins	Prize Amount
2003/2004	1st	Between $3,001 and $9,999
2004/2005	1st	Between $10,000 and $14,999
2006/2007	1st	Between $10,000 and $14,999
Total Wins		**Between $25,000 and $49,999**

16. Owner of Lottery Outlet		
Fiscal Year	Wins	Prize Amount
2000/001	1st	Between $3,001 and $9,999
2003/2004	1st	Between $3,001 and $9,999
2006/2007	1st	Between $3,001 and $9,999
	2nd	Between $3,001 and $9,999
Total Wins		**Between $15,000 and $19,999**

17. Manager of Lottery Outlet		
Fiscal Year	Wins	Prize Amount
2002/2003	1st	Between $3,001 and $9,999
2006/2007	1st	Between $3,001 and $9,999
Total Wins		**Between $10,000 and $14,999**

18. Employee of Lottery Outlet		
Fiscal Year	Wins	Prize Amount
2002/2003	1st	Between $1,001 and $3,000
2006/2007	1st	Between $25,000 and $49,999
Total Wins		**Between $25,000 and $49,999**

19. Owner of Lottery Outlet		
Fiscal Year	Wins	Prize Amount
2002/2003	1st	Between $3,001 and $9,999
2003/2004	1st	Between $3,001 and $9,999
2004/2005	1st	Between $3,001 and $9,999
	2nd	Between $3,001 and $9,999
2005/2006	1st	Between $3,001 and $9,999
	2nd	Between $3,001 and $9,999
	3rd	Between $3,001 and $9,999
2006/2007	1st	Between $3,001 and $9,999
Total Wins		**Between $25,000 and $49,999**

20. Employee of Lottery Outlet		
Fiscal Year	Wins	Prize Amount
2003/2004	1st	Between $3,001 and $9,999
2006/2007	1st	Between $3,001 and $9,999
	2nd	Between $10,000 and $14,999
Total Wins		**Between $15,000 and $19,999**

21. Employee of Lottery Outlet		
Fiscal Year	Wins	Prize Amount
1999/2000	1st	Between $1,001 and $3,000
2003/2004	1st	Between $10,000 and $14,999
	2nd.	Between $3,001 and $9,999
	3rd	Between $3,001 and $9,999
	4th	Between $1,001 and $3,000
2006/2007	1st	Between $1,001 and $3,000
	2nd	Between $3,001 and $9,999
Total Wins		**Between $25,000 and $49,999**

Distribution of BCLC Funds[43]

Fiscal Year	Total Revenues	Net Income	Prize Payout	Distribution to Federal Government	Distribution to Provincial Government	Breakdown of Provincial Funds
2002/03	$1.8 billion	$670.9 million	$650 million	$ 7.7 million	$663.2 million	**Consolidated Revenue** – $488.8 million **Charitable and Community Org** – $126 million **Host Local Govts** – $38.2 million **Development Assistance Compensation** – $6.9 mil **Problem Gambling Program** – $3.3 million
2003/04	$1.9 billion	$728 million	$643 million	$8 million	$720 million	**Consolidated Revenue** – $384 million **Health Special Account** – $147 million **Charitable and Community Orgs** – $132 million **Host Local Govts** – $45 million **Development Assistance Compensation** – $8 mil **Problem Gambling Program** – $4 million
2004/05	$2.03 billion	$818.9 million	$622.7 million	$8 million	$818.9 million	**Consolidated Revenue** – $479.9 million **Health Special Account** – $147.3 million **Charitable and Community Orgs** – $134.6 million **Host Local Govts** – $53 million **Horse Racing Purse Enhancements** – $4.2 million **Undistributed Development Assist. Compensation** – <$8.9 million
2005/06	$2.26 billion	$922.7 million	$641.5 million	$8.3 million	$914.4 million	**Consolidated Revenue** – $556.4 million **Health Special Account** – $147.3 million **Charitable and Community Orgs** – $137.7 million **Host Local Govts** – $65 million **Horse Racing Purse Enhancements** – $4.6 million **Undistributed Development Assistance Compensation** – $3.4 million

[43] Source: BCLC Annual Reports.

Analysis of a Sample of BCLC Security Files

(January 1, 2005 to October 27, 2006)

In response to the Vancouver Sun's freedom of information request, BCLC reviewed its security database and identified 74 investigations into fraudulent lottery claims since January 1, 2005. We conducted a review of 10 per cent of 1,632 files from which BCLC selected the 74. We were looking for security files that related to potential retailer impropriety/fraud. Our review of the 10 per cent sample indicated that 19 of those sample security files fell into this category. Presuming this sample selection is representative, it would lead to the conclusion that in the 1632 security files there would be approximately 190 that fell into the category of potential retailer impropriety/fraud.

Subcategory		Issue/Complaint	Included in BCLC 74?
1.	Validation	Clerk separated the Lotto 6/49 portion of a Super Dip ticket and gave the player only the Super 7 portion, keeping the other portion. Manager agrees to discipline clerk and issue a replacement ticket.	No
2.	Payment	Customer gives four tickets to retailer for validation. Clerk informs customer that she won $20 on one ticket and three free play tickets on a second ticket. Clerk discards all four tickets. Customer subsequently notices that on one of the other tickets, she had won $98. Customer invited to make request for prize payout on missing tickets. No clear outcome.	No
3.	Validation	Consumer asked to have ticket validated before draw occurred. Customer given validation slip and invited to return the following day, but not given ticket back. Consumer says she returned following day and clerk says he no longer has ticket but validated it and it was not a winner. BCLC reconstructs ticket and confirms not a winner. Manager will discuss procedure with staff. Second procedural problem in three days.	No
4.	Cancelled Tickets	Retailer sold a cancelled $10 Keno ticket. When the customer attempted to validate the ticket at another retailer, he was informed the ticket had been cancelled. BCLC instructed the retailer to issue a $10 refund to the customer.	No
5.	Validation	Retailer checked a winning $1,000 ticket and ripped it up before determining that it could not be cashed. Husband of ticket owner returned the following day. Retailer recovered the ticket.	No

Subcategory		Issue/Complaint	Included in BCLC 74?
6.	Information/ Inquiries	Consumer gives retailer ticket for validation. Retailer loses ticket. Manager reviews security tape and locates the ticket in a stack of selection slips under the counter. Consumer says this was three feet from the lottery terminal. The ticket was a $400 winner.	No
7.	Contract Violation	Anonymous complaint that bar staff, including the manager, are playing Pull Tabs while working and are winning.	No
8.	Validation	Clerk validated 6/49 Advance Buy ticket and gave the validation slip and $1 prize to the customer but did not give exchange ticket for remaining draw.	Yes
9.	Tickets	Customer cashed Super 7 ticket on which he had won a free play. Retailer gave him a Super 7 ticket that had already been drawn.	No
10.	Assistance to:	Retailer reports that customer says he was sold "Record of Last Transaction" slips rather than actual Texas Hold'em Poker on-line tickets.	No
11.	Tickets	Customer claims to have given two winning crossword tickets ($5 each) to clerk and received one losing ticket in return and that was a non winner. Customer informed that retailer could not have identified the ticket as a winner without validation.	Yes
12.	Validation	Customer complains that clerk tore bar code and control number off ticket and returned it to customer. Customer believes he should have won a free play.	Yes
13.	Contract Violation	Retailer validated ticket and then refused to pay out winnings ($50) as required. BCLC terminated agreement with retailer.	Yes
14.	Payment	Customer validated ticket and was given only partial prize ($10 issued rather than $10 plus 3 free plays).	Yes
15.	Contract Violation	"Confidential source" says bar staff are playing Keno and Pull Tab games while still on duty and informing patrons and other staff on the games that still have winning tickets.	No
16.	Validation	Consumer complains that clerk did not return validation slips, the transactions were quick and the consumer unsure whether appropriate prizes awarded. Clerk threw ticket in garbage.	Yes

Subcategory		Issue/Complaint	Included in BCLC 74?
17.	Theft	Retailer finds scratched and validated tickets in his display case. Suspects one of his staff may be responsible.	No
18.	Customer Service	Customer gave retailer two tickets for validation. Customer unaware one ticket was for draw that had not yet been done. Retailer gave validation slips back and discarded tickets. Customer later noticed that validation slip said, "Not Drawn Yet." Ticket not recovered.	No
19.	Validation	Customer complains that retailer frequently fails to show or return validation slips to the player. Retailer also attempts to not pay out the full amount of the win.	No

British Columbia Lottery Corporation

May 7, 2007

Ms. Kim Carter, Ombudsman
Office of the Ombudsman
Province of British Columbia
756 Fort Street
Victoria, BC V8W 9A5

Dear Ms. Carter:

On behalf of the British Columbia Lottery Corporation (BCLC), we are pleased to provide our response to your report. We see this as an important opportunity to review the processes and systems we have put in place over the past 33 years to ensure public confidence in British Columbia's lottery games. We share your view that player protection and the integrity of our lottery system is of the utmost importance. We also have a complementary duty to operate in an efficient and effective manner for the benefit of our customers and our shareholder, the Government of British Columbia.

Your report has highlighted weaknesses in BCLC validation and prize payout procedures, particularly in the areas of customer complaint tracking, retailer validation procedures and the monitoring of retailer play and win rates.

We support your findings and recommendations and your assertion that improvements need to be made.

We have initiated actions on all 23 recommendations in your report. For certain recommendations, we are proposing interim solutions while we examine and pilot ways to determine how best to realize the outcomes you are seeking.

We agree with you that the vast majority of lottery retailers are honest business people providing good quality service to our lottery players, and that they should retain the right to play our lottery games. However, we also recognize that BCLC has a greater responsibility to protect our players.

Therefore, BCLC will be implementing a number of measures to improve player and public trust in our prize payout and validation procedures, including:

- A "No Play at Work" policy for lottery retailers and their employees;
- New technology that will provide our players with greater control and assurance that they are being paid their correct prizes;
- Improved monitoring and reporting of lottery retailer play and win rates; and
- Immediate improvements to BCLC's customer complaint tracking, investigation and resolution processes.

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These initiatives are part of a comprehensive set of measures that BCLC will implement as our "Player First" program. This program will commit BCLC to act on your recommendations as well as other opportunities we have identified to enhance player protection. Our approach will be to continue to provide additional layers of protection so that players can have confidence that correct prizes will be paid to rightful holders of winning tickets.

BCLC's lottery system has been consistent with commonly accepted standards and practices of lotteries throughout North America. As the lottery industry has evolved, BCLC has made specific improvements to our player protection procedures and has made significant investments in new player protection technologies, among them:

- In 1989 we introduced scratch ticket validations on lottery terminals thereby phasing out manual retailer validation processes which are still used in many other jurisdictions;
- In 1998 we introduced Check-a-Ticket terminals (CATTs) so players could check ticket results for themselves. CATTs are already available in locations that account for more than 70% of ticket validations;
- In 2002 we introduced a musical jingle to alert players that their ticket was a winner; and
- In 2004 we started the installation of Player Display Units (PDUs) that display all purchase and validation transactions including winning prize amounts. BC is currently the only jurisdiction in Canada that has PDUs in every lottery retail location.

As you know, BCLC also added a number of new player protection layers beginning in late 2006. These include:

- Expanding distribution of CATTs to all retail locations;
- CATTs displaying winning messages that specify the exact amount of prize won;
- Fixing in place all PDUs to ensure they are always facing the player;
- Extending the time that validation information appears on PDUs;
- Fixing the volume of the winning jingle to its maximum level, and doubling its playing time;
- Enhancing the Mystery Shopper audits focusing on retailer compliance, managed by BCLC Security; and
- Initiating "Play with Confidence" advertising to better inform players of key protection measures.

Going forward, additional player protection layers will be added over the immediate term. These include:

- Restricting lottery retailers and their employees from purchasing or validating their own tickets at their place of employment ("No Play at Work");
- Implementing a formal Code of Conduct for lottery retailers and their employees;
- Implementing new procedures requiring all lottery retailers to return all winning tickets to players, with confirmation of payout on the ticket;
- Improving training and formally certifying all lottery retailers and their employees who operate lottery terminals;
- Implementing a formal progressive discipline program for lottery retailer non-compliance;

- Reducing the maximum prize payout levels at lottery retail locations from $3,000 to $1,000;
- Establishing designated regional prize payout centres for prizes under $10,000;
- Creating and maintaining a database of all lottery retailer employees;
- Conducting regular independent research into lottery retailer play activity;
- Implementing an integrated customer complaint tracking, investigation and resolution process; and
- implementing a formal program to educate players about player protection measures.

These steps will result in significant improvements in the prize payout and validation procedures. And we will do more.

During your investigation, and in the months prior, we have taken a hard look at all aspects of our lottery operations. Throughout emerged a common question – "What more can we do to remove the opportunity of something going wrong for players in the ticket validation process?" In a very real way, confidence in the entire system depends on whether this transaction takes place properly.

In our view, the best response to this critical question is to design a process where ticket validation would be initiated and controlled by the player, not the retailer – where the retailer's role is simplified to handling purchases and the payout of prizes up to $1,000.

With this new process, the player would never have to relinquish their tickets. Putting the player in control of ticket validation will set a new standard in lottery player protection and service.

We believe this is an innovative approach that is responsive to both player and public concerns. BCLC is committed to designing and implementing a new player controlled ticket validation system within 24 months.

In addition, we are committed to developing a player card system as a convenience and added player protection measure for our players. At the same time, by requiring retailers to use these cards, we will be able to better track retailer rates of play and retailer win rates.

Many of these programs and measures are outlined in BCLC's response to your recommendations. The details are attached as Appendix A.

Before concluding, we must address your statement that BCLC's report of 74 fraud related investigations was "inaccurate and the resulting conclusion drawn that there was no significant problem was misleading." This statement was made in relation to BCLC's response to a request from *The Vancouver Sun* under BC's Freedom of Information and Protection of Privacy Act ("FOIPPA") for "a copy of all investigations into fraudulent lottery claims since January 1, 2005." As we communicated to you, our reporting of 74 investigations related to the specific request for investigations into "fraudulent lottery claims" for the relevant time period and was not for the broader category of "potential retailer impropriety/fraud" as referenced in your report.

It remains our position that BCLC accurately and fully responded to *The Vancouver Sun's* FOIPPA request in accordance with the legislation and at no time was it the intent of BCLC to mislead the public in our public disclosure.

Appendix

We thank you for your report. We believe your recommendations, in concert with the measures and programs as outlined above, will improve public trust and confidence in the integrity of our lottery system and make BCLC a better organization.

Sincerely,

Vic Poleschuk
President & CEO

cc: Honourable John Les, M.L.A.
Solicitor General & Minister of Public Safety

John McLernon
Chair, BCLC Board of Directors

Appendix A - BCLC's Response to BC Ombudsman's Recommendations

Collection of Information

1. **BCLC create and maintain a list of current identifying information on all BCLC retailers and BCLC retailer employees.**

Response: BCLC accepts the recommendation of maintaining a list of current identifying information on all lottery retailers and their employees. This information would add an additional security layer to better conduct thorough investigations into prize claims. BCLC currently has a list of all retailer owners who must legally sign BCLC's Lottery Operations Agreement. BCLC is adding lottery retailer employees to this list through a location-by-location process of data capturing.

BCLC will also develop a central database that will be populated through a web based lottery retailer certification program.

In addition, current identifying information for all lottery retailer location managers will be forwarded to the Gaming Policy and Enforcement Branch (GPEB) for registration. GPEB registration includes criminal background checks.

2. **BCLC require all BCLC retailers and BCLC retailer employees (insiders) to use a swipe card or enter a code before all purchases of lottery products in order to collect a prize.**

Response: BCLC accepts the recommendation to better track lottery retailer rates of play and win to ensure that the rightful holder of a winning ticket is paid the correct prize.

BCLC will implement a policy prohibiting lottery retailers and their employees from purchasing and validating their personal lottery tickets in their place of employment. BCLC will implement a formal Code of Conduct requiring lottery retailers and their employees to exercise their responsibilities and obligations to the player. BCLC will conduct regular independent research into lottery retailer play activity.

BCLC is committed to developing a system, such as a universal player card within 24 months, in order to track rates of play and support legitimate prize claims. Once operational, lottery retailers and their employees will be obligated to utilize this system.

If a practical and workable system that meets the objective of accurately recording retailer play and win rates cannot be developed, then BCLC will reconsider its policy on retailer play.

3. **BCLC report publicly and annually on the rate of insider play and wins at all prize levels.**

Response: BCLC accepts the recommendation of publicly reporting, on an annual basis, the rate of lottery retailer play and wins. As an interim measure, BCLC will report all lottery retailer prize wins over $1,000. BCLC is committed to developing solutions to report lottery retailer wins below $1,000, including a system to track lottery retailer play and wins at all prize levels (as referenced in our response to

recommendation #2).

BCLC will conduct regular independent research into lottery retailer play activity and report results annually, in conjunction with wins over $1,000.

Validation Process

4. **BCLC pursue the development of technological security enhancements to monitor self-checking machines, speakers and any other devices designed to alert purchasers/customers of a win and if these devices are disabled for any reason to suspend sales at that location until they are inspected and repaired.**

Response: BCLC accepts the recommendation to develop security enhancements to suspend sales at a lottery location where equipment has been disabled. Currently, BCLC is fixing in place all Player Display Units (PDUs) with secure hardware to ensure these units are player facing and visible at all times.

BCLC is pursuing the development of a number of security enhancements, including:

- A technology solution which will cause the lottery terminal to shut down and suspend sales when peripheral equipment such as Check-A-Ticket (CATTs) and PDUs are disabled.
- Securing lottery terminals through a lock-down fastener so that the inside of the terminal cannot be accessed to disable the speaker.
- Not reactivating lottery terminals until they are inspected and repaired.

5. **BCLC require tickets or 'non-valid duplicates' to be returned to all ticket holders with appropriate markings to identify whether the ticket is not a winner; has been validated but not paid out; or is a winner and has been paid out.**

Response: BCLC accepts the recommendation to return all tickets to ticket holders after validation. On an interim basis, lottery retailers will be required to return all winning tickets to ticket holders with an obvious marking to indicate that the ticket has been paid out.

Currently all non-winning tickets are required to be returned with corresponding validation receipts. However, BCLC recognizes that it can be difficult for players to associate their tickets with the corresponding validation receipts. Therefore, BCLC will make efforts to help players more easily associate their tickets with the corresponding validation receipts.

BCLC will remove certain identification features printed on tickets to provide additional layers for security investigation procedures. This will allow BCLC to verify additional details as part of investigations into prize claims.

In the longer term, BCLC commits to pursuing the development of a self serve ticket validation system that would allow the player to initiate and control the validation of their tickets. This new system would imprint the corresponding validation message on the ticket itself, thereby eliminating the need for validation receipts.

6. **BCLC include on-screen information about winning tickets in more than one language if the demographics of an area indicate this is useful.**

Response: BCLC accepts the recommendation to communicate on screen information about winning tickets so that people of different language groups can comprehend the winning message. Therefore, BCLC will develop a universal symbol to communicate winning ticket information on Player Display Units and a corresponding, multi-lingual education program.

7. **BCLC impose an audit process on all wins over $3,000 that includes the requirement for a winner to make a statutory declaration that they are not a close relative of a BCLC retailer or a BCLC retailer employee.**

Response: BCLC accepts the recommendation to ensure that BCLC is identifying winners who are lottery retailers or their employees. BCLC will require all winners over $3,000 to complete a statutory declaration that they are not a lottery retailer, a lottery retailer employee, a close relative, or residing at the same address. Each BCLC designated regional prize payout centre and BCLC offices will be staffed with personnel certified as Commissioner of Oaths.

8. **BCLC require BCLC retailers to collect identification from winners for wins of $1,000 and greater and forward this information to BCLC. BCLC will then input this data into a database and perform random and regular audits to ensure the rightful owner of the winning ticket was paid the correct prize.**

Response: BCLC accepts the recommendation to collect identification from winners of $1,000 and greater in order to ensure the rightful holder of the winning ticket is paid the correct prize. BCLC will reduce prize payout limits at lottery retail locations from $3,000 to $1,000. Therefore, all winners of prizes over $1,000 will claim prizes at BCLC offices or BCLC designated regional prize payout centres. BCLC will ensure this information is entered into the prize winner database. These procedures will be subject to regular and random audits.

9. **BCLC commit to moving toward implementing 100 percent coverage of Check-A-Ticket machines and Keno Self-Service Machines.**

Response: BCLC accepts the recommendation to provide expanded access to self service devices and equipment.

BCLC has committed to 100% coverage of Check-A-Ticket terminals in all lottery retail locations.

However, in accordance with our social responsibility obligations, BCLC will only place Keno self service terminals in age controlled lottery retail locations (i.e.: bars and pubs) so that minors cannot access self service lottery terminals. BCLC will develop and install new Self Service terminals in all age controlled lottery retail locations (i.e.: bars and pubs) for Keno sale and validation purposes.

10. **BCLC implement a system where scratch and win tickets are recorded when sold to a player. BCLC to use this information as a security check during prize payout process.**

Response: BCLC accepts the recommendation to record when Scratch & Win tickets are sold to a player in order to use this information as a security check during the prize payout process. BCLC will implement a system that requires lottery retailers to scan or record the activation code for each book of Scratch & Win tickets prior to offering for sale. This record will be used as a security check during the prize payout process for prizes greater than $1,000.

BCLC is committed to developing a system to record individual Scratch & Win ticket sales. A number of issues require further analysis, including:

- Impact of recording individual transactions on player service and satisfaction levels.
- Ensuring lottery retailer compliance.
- Legal implications of withholding prizes for non-compliance.

Compliance/Enforcement

11. **BCLC modify its internal watchdog system to ensure that multiple checks of the same ticket, multiple attempts to validate a scratch and win or similar product, and any other suspicious activity be identified, investigated, reported upon, acted upon and tracked for trends.**

Response: BCLC accepts the recommendation to ensure any suspicious activity is identified, investigated, reported, acted upon and tracked for trends. BCLC will augment its current lottery retailer monitoring process to allow for improved investigation, reporting and response to alerts generated from the central gaming system. BCLC is also committed to implementing new computer systems to generate automatic security and fraud detection analysis.

12. **BCLC to develop an incentive program for BCLC retailers and BCLC retailer employees to identify gaps in post point of sale security procedures and report them to BCLC.**

Response: BCLC accepts the recommendation to identify gaps in the post point of sale security procedures. BCLC is committed to developing appropriate programs to encourage participation of all lottery retailers and their employees in this effort.

13. **Where BCLC reasonably suspects that a BCLC retailer or BCLC retailer employee or any other person has committed a criminal offence, BCLC promptly pass on this information to the appropriate police force.**

Response: BCLC accepts the recommendation to promptly pass on all incidents of suspected criminal activity, as determined by BCLC Corporate Security investigators (all former law enforcement officers), to appropriate police forces.

14. **BCLC have a clear, consistently enforced, process of progressive discipline for BCLC retailers and BCLC retailer employees for breaches of post point of sale security including where appropriate termination of the BCLC contract.**

Response: BCLC accepts the recommendation of consistently enforcing progressive discipline policies that are clear to lottery retailers and their employees. BCLC will implement a schedule of progressive and escalating disciplinary measures for violations of the Lottery Operations Agreement including breaches of post point of sale security. BCLC will require all lottery retailers and their employees to acknowledge that failure to comply with the Code of Conduct will result in progressive disciplinary actions up to and including termination of the Lottery Operations Agreement.

15. BCLC certify all persons operating its machinery have been properly trained to do so.

Response: BCLC accepts the recommendation to train and certify all persons operating lottery terminals.

BCLC is committed to developing a comprehensive, pro-active, well monitored training system.

BCLC will implement a number of enhancements to our current training program, including:

- Increased personal training at retailer location by BCLC sales representatives.
- Instructional DVDs will be provided to all lottery retailers.
- Additional classroom training at BCLC offices and in major centres in the province will be undertaken.

In addition, BCLC is developing a web-based lottery retailer training and certification program. Through this program, BCLC will certify all persons operating its equipment. BCLC sales representatives will ensure compliance by checking the lottery retailer's employee list to the list of BCLC certified lottery retailers and their employees.

16. BCLC conduct regular, random and comprehensive audits of BCLC retail outlets to ensure compliance with its post point of sale policies and take progressive disciplinary action for any breaches.

Response: BCLC accepts the recommendation to ensure compliance with its post point of sale policies. BCLC has implemented Mystery Shopper audits where lottery retail locations will be visited on a regular and random basis. The program will be a comprehensive audit of compliance to equipment standards and post point of sale procedures, including validation of winning and non-winning tickets. Disciplinary action will take place as a result of any breaches (as per recommendation #14).

17. BCLC develop an incentive program for purchasers/ customers to promptly report deficiencies at its retail outlet.

Response: BCLC accepts the recommendation to identify deficiencies at lottery retail outlets. BCLC is committed to developing appropriate programs to encourage deficiency reporting by purchasers/customers. All customer reported claims of lottery retailer deficiencies will be investigated and documented by BCLC.

Complaints Process

18. **BCLC create a written policy for dealing with all customer complaints about post point of sale security issues, including clear categories for identifying and tracking those customer complaints; a requirement that all those customer complaints be referred to and investigated by security; a process for analysing those complaints and tracking trends; and a requirement that the results of the process be reported on annually to the Chief Executive Officer, the Board of BCLC and the public.**

Response: BCLC accepts the recommendation to improve the handling of customer complaints. BCLC has implemented a new call tracking system that includes the following features:

- The ability to cross reference with BCLC Security incident management systems, including clearly defined categories.
- Linkage to the lottery retailer database.
- Integration with BCLC's email system.
- Better workflow design to identify backlogs.
- Better trend reporting.

BCLC will create updated written policy and procedures, including:

- Clear identification of the type of customer complaints.
- Defined processes, timetables, privacy and confidentiality requirements
- All appropriate customer complaints to be referred to and investigated by BCLC Security.

BCLC will analyse and track trends for post point of sale customer complaints and report annually the results of the process to the Chief Executive Officer, the Board of BCLC and the public.

General

19. **BCLC establish a position at the senior management level with responsibility for all aspects of post point of sale purchaser/customer prize payout security of lottery products.**

Response: BCLC accepts the recommendation to have senior management responsibility for all aspects of customer security, including post point of sale prize payout of lottery products. BCLC will develop and assign clear responsibility at the senior management level for this function.

20. **BCLC implement all GPEB December 2006 recommendations promptly.**

Response: All GPEB recommendations have been accepted and are being implemented.

Addressing Past Deficiencies

21. **BCLC be open to receiving complaints from players who feel that they were the victim of retailer impropriety. BCLC to investigate the complaints fully to determine if substantiated; if so, BCLC should be willing to reimburse the player.**

Response: BCLC accepts the recommendation to invite complaints from players who feel that they may have been subject to retailer impropriety. BCLC is committed to investigating each complaint fully and, if substantiated, will ensure the player is properly reimbursed.

22. **BCLC review its records including phone logs and security records to determine if there are any complaints where BCLC can improve its response or investigation.**

Response: BCLC accepts the recommendation to ensure customers' complaints have been handled properly. BCLC will hire an independent third party to review all phone logs and security records for the past two years to determine if there are any complaints where BCLC can improve its response or investigation.

23. **BCLC security review all multiple retailer winners to confirm that the prize payouts are valid; if suspicious circumstances are found, BCLC to report to the appropriate authorities.**

Response: BCLC accepts the recommendation to ensure that all multiple retailer winners' prize payouts are valid. BCLC Security will review and investigate all multiple lottery retailer winner claims and, if suspicious circumstances are found, will take appropriate action including reporting to appropriate authorities.

BRITISH COLUMBIA
The Best Place on Earth

MAY 16 2007

Ms. Kim Carter
Ombudsman
Province of British Columbia
PO Box 9039 Stn Prov Govt
Victoria BC V8W 9A5

Dear Ms. Carter:

I am responding to your May 1, 2007 letter concerning your investigation into the British Columbia Lottery Corporation's lottery prize payout procedures, and further to the Honourable John Les, Minister of Public Safety and Solicitor General's May 7, 2007 letter on this matter.

In your letter, you requested a response from the Ministry of Public Safety and Solicitor General to your recommendations concerning the Gaming Policy and Enforcement Branch's actions in monitoring, auditing and investigating those procedures. In a separate letter, also sent May 1, 2007, you made the same request of the Solicitor General.

I am pleased to enclose that response, prepared by Mr. Derek Sturko, Assistant Deputy Minister, Gaming Policy and Enforcement Branch (GPEB). This document represents the official response of the ministry.

I have discussed the substance and content of this response with the Solicitor General. We are both comfortable with and support its content.

The following observations are intended to ensure the ministry's response is complete and considered in the appropriate context.

Recent Development in BC's Gaming Industry

BC's Gaming Control Act came into force on August 19, 2002. It replaced several former acts related to gaming in British Columbia. One element of the Act was the formal amalgamation of five former independent organizations into GPEB as part of government.

As a consequence, BC's gambling industry underwent a large scale, comprehensive reassessment and realignment. These changes made the industry more business like, added rigor, increased accountability and transparency, protected the public interest and helped ensure the integrity of the industry.

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Prior to the Act coming into force, the extent and scope of legislated regulatory authority regarding gaming, including oversight over the British Columbia Lottery Corporation (BCLC) was unclear and incomplete. For instance, many of GPEB's current responsibilities (e.g.: registration of people and companies, certification of equipment, investigations, Section 86 reports) were not previously reflected in any statute.

Implementation of a new regulatory structure of this scale requires time and resources. Attention has to be put where the highest risks exist. GPEB employed a risk-based approach to enhancing the regulation of gaming in BC, especially in regard to the establishment and implementation of regulatory controls and functions that did not previously exist.

As part of this approach, the highest priority has been placed first on those sectors of the industry where the volume of money and activity, and risks to integrity of gaming, are at the highest risk. For example, this included: the operation of commercial gaming facilities (casinos, community gaming centres, bingo halls, horse race tracks), where the biggest risks for large-scale criminal or regulatory infractions exist; the registration of all companies and individuals involved in commercial gaming (other than lottery retailers or their employees) which involves background and criminal record checks; and the certification of all gaming equipment and confirmation of the policies, procedures and systems through which the conduct and management of gaming including PlayNow, BCLC's online lottery system, are handled.

Much has been accomplished and, in most areas of gaming, BC's public is better protected by: a strong legislative framework; increased regulation; increased and public standards of performance; clear and transparent decision making; enhanced scrutiny of the people, companies and equipment that are involved; increased audit, compliance and investigative activity; and complete and open disclosure as to where the money goes.

GPEB's Review of BCLC's Lottery Retailer Network, Systems and Processes

Since August 19, 2002, BCLC has been required to notify GPEB immediately about any conduct, activity or incident occurring in connection with a lottery scheme that may or does involve an offence under the Criminal Code of Canada or a regulatory offence under the Act or its regulations. Those reporting requirements include, but are not limited to, incidents involving allegations of retailer fraud. Prior to October 2006, GPEB had been made aware of very few public allegations of fraudulent retailer activity, including only two from BCLC.

However, in response to incidents occurring elsewhere in Canada, in October through December 2006, GPEB reviewed BCLC's lottery prize payout procedures.

The Solicitor General asked Gaming Policy and Enforcement Branch (GPEB) to review and report on the integrity of B.C. Lottery Corporation's (BCLC) lottery ticket retail network, including: the technical integrity of the systems; the current methods BCLC uses; and

requires of its retailers, to inform customers of winning tickets and to mitigate the possibility of retailers misrepresenting ticket circumstances to customers (e.g., by substituting tickets); and the current policies and procedures BCLC uses to confirm the integrity of a lottery retailers claims regarding ownership of a winning ticket.

As a consequence of GPEB's review of BCLC's lottery prize payout procedures:

- The Assistant Deputy Minister (GPEB) reconfirmed the requirement that BCLC must report, to GPEB, all issues of real or suspected wrongdoing involving lottery retailers and their employees, in accordance with Section 86 of the Gaming Control Act;
- GPEB will register all lottery retailers (location managers), including a background investigation and criminal record check. Retailers will be formally responsible for the actions of their employees; and
- GPEB will review lottery product and issue certificates of the integrity of those products before they are introduced by BCLC. Reviews will address the printing, construction, randomization, and product security of those products, relative to provincial standards.

As a consequence of GPEB's review of BCLC's lottery prize payout procedures:

- BCLC will ensure its Player Display Units (PDU) in all lottery retailer locations are located in fixed positions facing the customer. This will include fixing the positions of all new installations and the retrofitting of all existing units;
- BCLC will install customer operated ticket validation kiosks in most lottery retailer locations to provide the customer with a confirmation of a win (or not), for all lottery products other than Scratch & Win tickets;
- All large prize claimants (those claiming a prize of $10,000 or more will be interviewed by BCLC's corporate security personnel;
- For all prize claims in excess of $3,000 made by lottery retailers, retailers' employees or close relatives of either, BCLC will ensure the prize claimants are submitted to interviews by BCLC's corporate security personnel;
- BCLC will require all winners of prizes in excess of $10,000 to sign a waiver that they are not a lottery retailer, a retailers' employee, or a close relative of either (if they claim to be none of the above);
- BCLC will review its training regime for prize/sales staff's consideration of prize winners and report to the Solicitor General (through GPEB) on the results and any changes it considers necessary; and
- BCLC will undertake regular reporting of retailer/employee prize claims and payouts to BCLC's executive team and board of directors.

Ombudsman Recommendations to BCLC

The Ombudsman has also made 23 recommendations to BCLC as a result of her review that relate primarily to responsibilities of BCLC. However, they have consequences for government and, specifically, GPEB.

GPEB has a role to play in regard to those recommendations which are implemented. This includes, but is not limited to:

- Ensuring BCLC complies with the intent of each recommendation, implements the recommendation and reports to GPEB and, where required, the public, on its implementation;
- Auditing BCLC's resulting policies and procedures (e.g.: lottery prize payouts, management of customer complaints, and so forth);
- Approving and certifying any technological, hardware or software systems required to implement the recommendations;
- Long term monitoring and auditing of resulting policies and procedures;
- Ensuring BCLC complies on a timely and thorough basis with its reporting obligations concerning related matters (e.g.: reporting under Section 86 of the Gaming Control Act); and
- Ensuring BCLC fully implements the recommendations resulting from GPEB's review of BCLC's lottery prize payout procedures.

In order to ensure the implementation of these recommendations in a complete and timely manner, GPEB intends to engage an independent third party to assist GPEB. This independent perspective is intended to help ensure public confidence in how the implementation of these recommendations is being managed.

Concluding Comments

British Columbians participating in any form of gaming in the province should feel confident in the integrity of the people and systems, and that they are protected from any potential fraud. GPEB commits to implementing both the spirit and substance of the Ombudsman's recommendations concerning BCLC's lottery prize payout procedures and to reporting publicly about their implementation.

The response that is attached is intended to address those deficiencies.

Thank you for the opportunity to respond.

Sincerely,

David Morhart
Deputy Solicitor General

Enclosure

pc: The Honourable John Les
Mr. Derek Sturko

Appendix

Ministry of Public Safety and Solicitor General
Gaming Policy and Enforcement Branch
Response to Ombudsman's Report and Recommendations Concerning
British Columbia Lottery Corporation's Lottery Prize Payout Procedures
May 8, 2007

GPEB RESPONSE TO OMBUDSMAN'S RECOMMENDATIONS TO GPEB

GPEB accepts all of the Ombudsman's recommendations made to GPEB concerning BCLC's lottery prize payout procedures.

Ombudsman Recommendation #1

Recommendation: *GPEB enhance its regulation of BCLC's lottery prize payout procedures and complaints handling processes. This should include but not be limited to GPEB conducting regular audits of BCLC's lottery prize payout procedures and BCLC's investigation of customer complaints, ensuring BCLC's compliance with its section 86 reporting requirement and conducting its own independent investigations into public complaints involving BCLC's prize payout procedures. All of these activities should be reported on publicly in its annual report.*

GPEB Response: GPEB accepts this recommendation. In response, GPEB will enhance its regulation of BCLC's lottery prize payout procedures and complaints handling processes. Specifically, GPEB will:

- Conduct regular and independent audits of BCLC's lottery prize payout procedures and BCLC's investigation of customer complaints;
- Ensure BCLC complies with its Section 86 reporting requirement;
- Confirm BCLC's obligation to provide to GPEB, as soon as possible and with urgency, full and comprehensive files in support of each initial Section 86 notification;
- Reconfirm to BCLC that, in response to any Section 86 notifications concerning potential fraud by a lottery retailer or a lottery retailer employee, GPEB will continue to make independent decisions about whether to conduct a full and separate investigation of the circumstances;
- Audit and review BCLC's policies and procedures for addressing public complaints involving BCLC's prize payout procedures; and
- If and as necessary, conduct an investigation [under Section 27(3) of the Act] of any systemic or recurring problems.

All of these activities will be reported publicly in GPEB's annual report.

Ombudsman Recommendation #2

Recommendation: *GPEB conduct independent systemic investigation into any recurring problems.*

GPEB Response: GPEB accepts this recommendation. In response to this recommendation, as well as GPEB's findings in response to the previous

recommendation, and GPEB's ongoing role in regulating BCLC's lottery policies and procedures, GPEB will:

- Establish a system to routinely monitor, review and audit BCLC's lottery retailer policies, procedures and systems (including but not limited to: BCLC's contract framework; retailer operating practices; retailer handling of lottery tickets and advising of customers; retailer information systems; ticket validation and prize payout processes; compliance and enforcement policies and procedures; and policies and procedures concerning reporting to GPEB, BCLC's Board of Directors and the public);
- Independently audit and review any identified systemic or recurring problems; and
- If and as necessary, investigate [under Section 27(3) of the Act] any systemic or recurring problems.

Ombudsman Recommendation #3

Recommendation: *GPEB report publicly on BCLC compliance with its recommendations for change every six months until completed and clearly identify whether it is satisfied with the progress.*

GPEB Response: GPEB accepts this recommendation. In response, GPEB will:

- Continue to monitor and engage BCLC in the implementation of GPEB's recommendations for change;
- Report publicly on BCLC's compliance with the recommendations for change at least every six months (but more likely quarterly) until fully implemented;
- Clearly identify whether GPEB is satisfied with BCLC's progress; and
- Monitor BCLC's progress in implementing the Ombudsman's recommendations to BCLC concerning BCLC's lottery prize payout procedures and report publicly on BCLC's progress and GPEB's satisfaction with that progress.

Ombudsman Recommendation #4

Recommendation: *GPEB conduct a thorough investigation of BCLC's investigation into all complaints of potential retailer impropriety since January 1, 2005 and report publicly on its findings.*

GPEB Response: GPEB accepts this recommendation. In response, GPEB will:

- Conduct a thorough and independent audit and review of BCLC's handling of all complaints of potential retailer impropriety since January 1, 2005 and report publicly on its findings;
- Continue to conduct reviews of the full files supporting those complaints and make independent decisions about which, if any, Section 86 notifications concerning potential fraud by a lottery retailer or a lottery retailer employee warrant a full and separate investigation [under Section 27(3) of the Act];
- If and as necessary, conduct an independent investigation [under Section 27(3) of the Act] of any systemic or recurring problems; and
- In order to satisfy GPEB that BCLC's current and ongoing complaint handling processes are proper and complete, conduct an independent investigation [under Section 27(3) of the Act] of at least 10 percent of all notifications to GPEB. The files

to be independently reviewed will include those noted above for which GPEB makes an independent determination that a separate investigation is warranted, as well as a random sample of other notifications.

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